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SESSION 1947-1948

HOUSE OF COMMONS

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- B11 STANDING COMMITTEE

ON

H7907

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE [and reports]

No. 1

Subject-matter of the General Agreement on Tariffs and Trade,
including the Protocol of Provisional Application thereof,
together with the Complementary Agreement of
October 30, 1947, between Canada and the
United States of America.

THURSDAY, MARCH 11, 1948

THURSDAY, MARCH 18, 1948

WITNESSES:

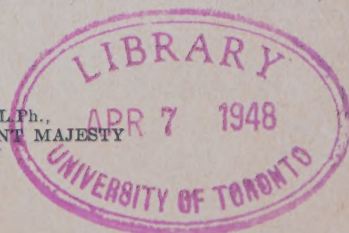
Mr. H. B. McKinnon, Chairman of the Tariff Board;

Mr. J. J. Deutsch, Director of Economic Relations Division, Department
of Finance;

Mr. Hubert R. Kemp, Director of Commercial Relations Division,
Department of Trade and Commerce.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY

1948



ORDERS OF REFERENCE

HOUSE OF COMMONS,

Monday, 2nd February, 1948.

Resolved: That the following Members do compose the Standing Committee on Banking and Commerce: Messieurs Abbott, Argue, Arsenault, Beaudry, Belzile, Benidickson, Black (*Cumberland*), Blackmore, Bradette, Breithaupt, Cleaver, Cote (*St. Johns-Ilberville-Napierville*), Dechene, Dionne (*Beauce*), Dorion, Fleming, Fournier (*Maisonneuve-Rosemont*), Fraser, Fulton, Gour, Hackett, Harkness, Harris (*Danforth*), Hazen, Ilsley, Irvine, Isnor, Jackman, Jaenicke, Jutras, Lesage, Low, Macdonnell (*Muskoka-Ontario*), MacNaught, Manross, Marquis, Maybank, Mayhew, Michaud, Nixon, Picard, Pinard, Quelch, Rinfret, Ross (*Souris*), Stewart (*Winnipeg North*), Smith (*York North*), Thatcher, Timmins, Tucker—50. (Quorum 15).

Ordered: That the Standing Committee on Banking and Commerce be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

THURSDAY, March 11, 1948

Ordered,—That the said Committee be empowered to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

Ordered,—That the quorum of the said Committee be reduced from 15 to 10 members and that Section 1 (d) of Standing Order 63 be suspended in relation thereto.

Ordered,—That the said Committee be granted leave to sit while the House is sitting.

FRIDAY, March 12, 1948.

Ordered,—That the subject-matter of the General Agreement on Tariffs and Trade, including the Protocol of Provisional Application thereof, together with the complementary agreement of October 30, 1947, between Canada and the United States of America, be referred to the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

STANDING COMMITTEE

HOUSE OF COMMONS,

THURSDAY, March 11, 1948.

The Standing Committee on Banking and Commerce begs leave to present the following as a

FIRST REPORT

Your Committee recommends:

1. That it be empowered to print, from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.
 2. That its quorum be reduced from 15 to 10 members and that Section 1 (d) of Standing Order 63 be suspended in relation thereto.
 3. That it be granted leave to sit while the House is sitting.
- All of which is respectfully submitted.

HUGHES CLEAVER,

Chairman.

(Note: The above report was adopted by the House on the same day it was presented.)

SECOND REPORT

The Second Report to the House, presented on Thursday, March 11, 1948, deals with Private Bills referred to it under Order of Reference dated Friday, March 5, 1948, and considered by the Committee.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, Room 497,

THURSDAY, March 11, 1948

The Standing Committee on Banking and Commerce met this day at 11 o'clock a.m. Mr. H. Cleaver, Chairman, presided.

Members present: Messrs. Argue, Belzile, Benidickson, Cleaver, Dechene, Gour (*Russell*), Hazen, Isnor, Jackman, Jaenicke, Jutras, Low, Macdonnell, (*Muskoka-Ontario*), Marquis, Michaud, Pinard, Rinfret, Ross (*Souris*), Smith (*York North*), Thatcher, Timmins.

In attendance: Mr. R. W. Warwick, Superintendent, and Mr. K. R. MacGregor, Chief Actuary, of the Department of Insurance, Ottawa, Ontario; Mr. D. K. McTavish, K.C., and Mr. D. A. McIlraith, K.C., Ottawa, Ont.; Mr. H. Gerin-Lajoie, K.C., and Mr. P. P. Hutchison, K.C., of Montreal, P.Q.; Mr. H. I. Price, and Mr. Joseph Miller, of Toronto, Ont.; Mr. C. N. Bissett and Mr. A. G. B. Milborne, of Montreal, Que.; Mr. David Croll, M.P.

On motion of Mr. Pinard:

Resolved,—That the Committee ask leave to sit while the House is sitting.

On motion of Mr. Isnor:

Resolved,—That the Committee recommend that its quorum be reduced from 15 to 10 members.

On motion of Mr. Marquis:

Resolved,—That the Committee recommend that it be authorized to print from day to day, 500 copies in English and 200 copies in French, of its Minutes of Proceedings and Evidence.

(The Committee considered four private bills.)

The Chairman proposed and the members of the Committee unanimously agreed that the Clerk of the Committee be instructed to write to Mr. G. D. Finlayson, former Superintendent of Insurance, to express to the latter the Committee's appreciation of the valuable services rendered to the Committee by Mr. Finlayson during his tenure of office. The Committee also offered their congratulations to Mr. R. W. Warwick on his appointment as Superintendent of Insurance to succeed Mr. Finlayson who has retired.

At 12.15 o'clock p.m., the Committee adjourned to meet again at the call of the Chair.

HOUSE OF COMMONS, Room 429,

THURSDAY, March 18, 1948.

The Standing Committee on Banking and Commerce met this day at 8.15 o'clock p.m. Mr. Hughes Cleaver, Chairman, presided.

Members present: Messrs. Argue, Belzile, Benedickson, Blackmore, Cleaver, Dechène, Dionne (*Beauce*), Dorion, Fleming, Fraser, Fulton, Harris (*Danforth*), Hazen, Isnor, Jaenicke, Jutras, Lesage, Low, MacNaught, Marquis, Michaud, Pinard, Rinfret, Timmins.

In attendance: Mr. H. B. McKinnon, Chairman of the Tariff Board; Mr. J. J. Deutsch, Director of Economic Relations Division, Department of Finance; Mr. Hubert R. Kemp, Director of Commercial Relations Division, Department of Trade and Commerce.

The Order of Reference of Friday, March 12, 1948, was read by the Chairman.

A discussion took place in connection with the procedure to be followed and it was finally agreed that the officials in attendance should address the Committee briefly on the subject-matter referred to it.

Mr. McKinnon, Mr. Deutsch and Mr. Kemp were therefore heard.

On motion of Mr. Marquis:

Resolved,—That a Steering Subcommittee be appointed which shall be composed of the Chairman, three Liberal members, two Progressive-Conservative members, one C.C.F. member and one Social Credit member, the names to be submitted to the Chairman sometime to-morrow.

At 9.15 o'clock p.m., the Committee adjourned to meet again at the call of the Chair.

ANTOINE CHASSE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

March 18, 1948.

The Standing Committee on Banking and Commerce met this day at 8.15 p.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: As you know our reference is The Geneva Trade Agreements. I would suggest that we have a general statement by Mr. Hector McKinnon, and that we then have a general discussion as to just how far the committee would like to go in regard to going into the details. I would ask the committee to appoint a steering committee. I anticipate as a result of pressure of work between now and Easter adjournment this will be the only meeting of the committee before then. Immediately after the Easter adjournment we should take up the subject just as promptly and as continuously as possible.

Mr. HARRIS: Just before you ask our friend, Mr. McKinnon, to give his observations I should like to make one or two comments with regard to the conduct of your committee. First I think you as chairman should take this committee into your confidence and tell us how you propose to proceed. Secondly you are charged with this responsibility and you should tell your committee how many of the other countries interested have made substantial progress in putting these agreements into effect. Take the major countries first and tell us how far along the United States, for example, have proceeded with their work, and then in due course the other countries.

I am of the opinion that to throw witnesses, in whom we have the utmost confidence, into this committee, without having a general direction as to how your committee is going to function, and what the objective of your committee is as far as time and agenda and reporting back is concerned, is something that should not be done. We should have that general basis first.

I think that these witnesses, whom you have probably summoned of your own accord, will find themselves in a position which is more or less duplicating certain work they have already been asked to do in another place. I think your committee should be seized with the economy of things. I do not know why, when there are three volumes of evidence printed elsewhere on the same subject matter, that we should ask these witnesses to again lose their time and travel over the same material probably that has been gone over in another place. I think we should iron out among ourselves first the minimum of evidence we are going to ask for so as to be careful not to duplicate what has transpired, and having as an objective the objective which the chairman and the government probably have in their mind before we go on with a lot of elaborate details which will not bring us to our final objective in what I would suggest to you, sir, might be a more orderly way. I should like to hear from the chairman first as to what he wants us to do before going on with the witnesses.

The CHAIRMAN: Is there any other member of the committee who would like to speak at this time?

Mr. BLACKMORE: Mr. Chairman, I am not sure I gather completely the purport of the remarks of the honourable member, but my opinion would be rather at variance with his. I should like to see this committee go into this

matter with the utmost care. It does not matter very much to me how many times it has been gone over by other people. I am not sure that the House of Commons needs to concern itself a great deal with evidence taken in another place.

Mr. LESAGE: Is it the rule we have to rise every time we want to say a word?

The CHAIRMAN: It has been the practice in this committee, but I am entirely in the hands of the committee. I think perhaps it leads to a more orderly procedure.

Mr. MACNAUGHT: I think that the point raised by Mr. Harris can be very well disposed of if you have a steering committee. I think it is hardly fair to put the question to you today without having a steering committee to help you make that decision. I mean as to how we will proceed. I think if we have that steering committee it will satisfy Mr. Harris' demands.

Mr. FLEMING: May I say a word in support of the statement made by Mr. MacNaught. Of course, we are all concerned about the matter of time. I do not know how many of us—certainly I am not one of them—came here tonight expecting there was going to be a formal sitting of the committee. I for one had assumed the committee would follow the usual practice of committees, and the practice followed by this committee in other sessions, of having an organization meeting which would really do little more than appoint a steering committee. The steering committee would survey the task to be done, the witnesses to be called, and the sittings to be arranged. The steering committee, having conferred on that, would then report to the main committee and arrangements would then be made to proceed.

The departure tonight is in this respect, as I see it, that before a steering committee has been appointed and has done that ground work we have been summoned and are asked to go right into this question tonight and to hear witnesses, witnesses for whom I do not suppose we are prepared. For my part I had no intimation at all these witnesses were going to be called tonight. If I had had there is certain preparation I should have liked to have made, the kind of preparation that will in the end expedite the proceedings.

Therefore my suggestion is that tonight we should appoint the steering committee. The steering committee should then go to work to map out the task before us, and the kind of sittings we should have and the order in which we propose to call the witnesses. I think beyond that it is not fair to ask the committee to go at this particular stage. If you say, "Well, we are all here. Why do we not sit here for an hour or so", I think the answer to that one is that I do not think you will save time in the long run by doing that because many have come unprepared. The second thing is there is an important debate downstairs, and in the third place apparently we are to have only one meeting before Easter, and we will probably just cover the same ground at the next meeting as we will spend time on covering tonight. I do not say anything I have said in criticism of what has been done but I hope in the expectation it will save your time in the long run and contribute to more orderly treatment of our task.

Mr. JAENICKE: I agree with what has been said but as to Mr. McKinnon speaking to us tonight, if we are not going to meet again until after Easter, it might be well to have a short statement from him. We do not have to cross-examine him. It is not a question of cross-examining him at all. I should like to know what it is all about. I have read the treaty, and I would have a lot of questions to ask. I do not know whether that question would have to be asked of Mr. McKinnon but we will find that out as we proceed. I think a short statement by Mr. McKinnon without any examination or cross-examination would be of help to us in the way of allowing us to prepare

ourselves during the Easter recess. Of course we should also attend to the other matter referred to by Mr. Fleming, that is that a steering committee should be appointed. I do think however that we should have a short statement from Mr. McKinnon, who will no doubt be called back again for the purpose of answering more questions.

Mr. MARQUIS: If I may say a word, I entirely agree with Mr. Jaenicke. I think the witness is supposed to submit a brief to the members of the committee and I would like to have the brief. We could look at it during the recess. I am not sure, however, whether there is a brief or whether it is only a statement.

Mr. LESAGE: Well, it will be printed in the record anyway.

Mr. HAZEN: I would like to know the terms of reference of this committee if there are such. In other words I would like to know what this committee has to do. I rather agree with Mr. Harris that we should know what the committee's duties are and I do not see how the steering committee can go ahead unless its members also know those duties. I think the members of the full committee should know the situation as well, and I agree with Mr. Jaenicke and the other gentlemen who said we should hear Mr. McKinnon tonight. I would say again that I would just like to know what our duties are.

Mr. TIMMINS: The point raised by Mr. Harris had to do with what was being done in other countries. Now from press releases which I have seen I think that in the United States this matter of the Geneva Treaties is more or less a dead issue until after the presidential election. I may be wrong in that and I think, if Mr. McKinnon were to speak tonight, it would have a considerable difference on how fast we move. We should know whether we are racing against time or whether, as a matter of fact, the United States is not going to deal with those treaties until well on in 1948.

Mr. FULTON: Before we go any further, would the chairman please do me the favour of telling me what we are supposed to be talking about. The chairman asked if there were any other members of the committee who wanted to speak and I imagine there are a lot of us who could say something which would be of assistance if we knew what we were discussing.

The CHAIRMAN: As the members of the committee know the resolution which appeared under the name of the Prime Minister is as follows:—

That it is expedient that Parliament do approve the General Agreement on Tariffs and Trade; including the Protocol of Provisional Application thereof, annexed to the Final Act of the Second Session of the Preparatory Committee of the United Nations Conference on Trade and Employment held at Geneva from April 10 to October 30, 1947, together with the complementary agreement of October 30, 1947, between Canada and the United States of America; that the House do approve the same, subject to the legislation required in order to give effect to the provisions thereof.

That is the wording of the resolution which appeared on the order paper in the name of the Prime Minister.

Our order of reference is dated Friday, March 12, 1948:—

That the subject-matter of the General Agreement on Tariffs and Trade, including the Protocol of Provisional Application thereof, together with the complementary agreement of October 30, 1947, between Canada and the United States of America, be referred to the Banking and Commerce Committee.

That is our order of reference.

Mr. FRASER: Mr. Chairman, are we not allowed to change anything?

The CHAIRMAN: If I may say a word I will just deal with the points which have been raised and then if there is any further discussion, I am entirely in the hands of the committee of course. Reading the order of reference and hearing what was said I felt that the members of this committee would come here exactly as I find they are here, with some doubts and with considerable lack of knowledge as to what our reference is all about. On that account I thought it would be well if the committee were to have a general statement from Mr. Hector McKinnon and that the committee should reserve any questions or any discussion on that statement and we would stop there. Having had a general resume or a bird's-eye view of our task, we would appoint a steering committee which I would suggest be of the usual size, that is three members from the government side, two from the Progressive Conservatives, and one from each of the other parties. The steering committee would then meet and would decide just what order we should adopt in taking this matter up, what witnesses should be called, and to what extent we should go into detail on the individual tariff items. I felt that a report from the steering committee to the general committee would be helpful in that regard. Now as to the other questions asked by Mr. Harris, namely the position of those agreements in respect to other countries, that information would of course also be obtained and made available to the committee. In regard to Mr. Harris' comments that the Senate had already heard some of the evidence and that evidence is printed and available to us, I do think—and I hope that Mr. Harris will reconsider his view in that regard—the matter is of such importance that this committee should not be content to go on the work of some other body and that the members of this committee will want to hear witnesses themselves. That is where I stand, but I am entirely in your hands.

Mr. FLEMING: May I ask a question? How long is it expected that Mr. McKinnon's statement will take, if there are to be no questions asked?

The CHAIRMAN: Not over half an hour.

Mr. McKINNON: I think the members of this committee who have known me around Ottawa for the last quarter of a century would be the first to realize I am not likely to come here with a prepared statement. I am not the type of civil servant who thinks it his duty or his privilege to appear as an advocate of any particular type of legislation. I came specifically to answer questions and our small group, Mr. Deutsch, Mr. Kemp and myself, who were charged with the responsibility of negotiating the agreements at Geneva, rather welcomed, sir, the idea of a committee of this type as compared with the formal proceedings in the committee of ways and means through which we have gone in other years. It is an advantage that the members of the committee can ask questions directly from the official concerned and receive a direct reply. I certainly have no prepared statement of any kind, sir. I come in the character of a witness in court who is supposed to answer questions. If it would help the committee, and if it would not delay its work, I am quite willing to give a brief sketch of the inception of the whole idea of multi-lateral trade agreements, the various stages through which they passed, what was done at the different conferences, what was finally effected at Geneva, and which is now brought home for ratification or rejection by parliament in its wisdom. I am quite prepared to do anything the committee wishes me to do.

The CHAIRMAN: Would it be satisfactory to have a general statement, then?

Mr. FLEMING: If Mr. McKinnon's statement is going to be brief then we would probably take more time talking about whether he should give it than we would in hearing it. May I suggest we hear this brief and interrupted statement of Mr. McKinnon, then appoint a steering committee, and then adjourn. We will not have questions or discussions on the statement.

Mr. McKINNON: I will attempt to be as brief as the committee wishes.

Mr. CHAIRMAN: Do not hurry.

Mr. McKINNON: I think all the members of the committee will recall that the first suggestion that was made in connection with multi-lateral trade agreements among as many nations as could see their way clear to entering into such agreements, came about very early in the war. It was referred to, if I remember correctly, in very general terms in the Atlantic Charter. It was referred to again in connection with the lend lease agreements. It was referred to again in connection with the negotiations between the United Kingdom and the United States in connection with the British loan.

At least three or four years ago, proposals which were called proposals, were put out under the aegis of the United States and the United Kingdom. These, at the time, were published in Canada. My recollection, Mr. Deutsch, is that they were tabled in the House and the Prime Minister made a brief statement about them, merely remarking that he thought they represented something in which Canada would have a very real and genuine interest arising out of her great prominence as a world trader, her tremendous export trade and her general desire to see anything done in that respect which might lead to a reduction of tariff barriers and the elimination of discriminatory practices of one kind and another.

A number of rather informal conferences were held in 1943, in 1944 and 1945. Each one of us attended some or all of these conferences which were in Washington and in London. At that point, the idea was taken over by the United Nations and, under the aegis of the United Nations, was advanced another step.

The first session of what was called the Preparatory Committee for International Trade Conferences was summoned in London in February of 1946. We attended that. At that conference, in addition to the rather general proposals, as they were called, we were presented with what was called a draft charter for an international trade organization. This draft charter was the work of the United States government, on the executive side. It was purely on the official level, but the United States did go ahead in an effort to get something on paper which could be discussed.

We spent a couple of months in the fall of 1946 at that first conference, Mr. Chairman, attempting to hammer out a rough draft, at least, of an international trade charter. That was, in turn, referred in 1947 to what was called the second sitting or session of the preparatory committee. It was convened in Geneva in the first week of April, 1947. Again, we were on the delegation which represented Canada. There were 23 nations represented as participants in the Geneva discussions and a number of other countries were represented through observers who were free to attend most of the meetings, but did not take actual part in the negotiations.

The negotiations at Geneva, which lasted for about eight months, fell into two quite separate but related divisions. The first section had to do with the charter which is, in short, an attempt to make a code of international conduct in respect to trade and commerce. The second part of the work of the committee had to do with the actual negotiating of tariff arrangements among the various nations represented at Geneva. Mr. Deutsch, who is sitting on my right, from the Department of Finance, was primarily responsible for the Canadian participation with regard to the general code, now called the charter. Largely because of my years of experience rather than anything else, I was regarded as the one in charge of the tariff negotiations.

Mr. Deutsch will speak at any length the committee wishes later, sir, with regard to what happened the charter. He will, I am sure, make as clear as possible how it developed and will then go on to explain what is now being done in connection with the charter at the world trade conference, itself, which is at present in session in Havana, Cuba.

As regards my side of it, the tariff negotiations, out of the 23 nations represented at Geneva we carried on negotiations with 16. We successfully

concluded negotiations with 16. However, only eight of those nations at Geneva signed what is called the Protocol of Provisional Application which, in simple words, was simply an undertaking by the governments of those eight countries to bring the actual tariff changes, provisionally and temporarily into effect on the first of January last. In all cases, the agreement itself, including the schedules, will have to be dealt with by the proper legislative authorities of the countries concerned. In our case, it has to be ratified by parliament, but the actual tariff changes were brought into effect provisionally on the first of January and are now in effect. In connection with the point raised by Mr. Harris, I might say that is also the situation in the United States. All the reductions were brought into effect on the first of January. It is also the case in the United Kingdom. It is the case in respect of the three Benelux countries, France, Belgium and Luxembourg:

An Hon. MEMBER: The Netherlands.

Mr. McKINNON: I beg your pardon, the Netherlands. Other countries that did not sign the protocol of provisional application have until June of 1948, that is June of this year, to sign the protocol bringing the provisions into effect. In many cases it was not that there was any unwillingness or reluctance on the part of any country to bring them into provisional effect but rather, in many countries, their constitutional practice does not permit bringing them into effect by executive action as it did in our case and that of the United States and Great Britain. For instance, I think Norway is a good illustration. They cannot bring them into effect at all until their parliament meets and ratifies the agreement.

I seem now to have reached a point, Mr. Chairman, where there is not much more to be said by way of general remarks because we have now before us the charter, the trade agreement itself, which is simply an abridged edition of the charter. The idea at Geneva in bringing out an agreement, as distinct from the charter, was that all the nations represented there knew that the charter had to run the gamut of a very large conference in Havana at which there are nearly 60 nations instead of the 23 who were at Geneva. Therefore, in order to get on with the job and make it possible to bring some of the tariff changes into effect provisionally, the nations at Geneva agreed upon the abridged edition of the formal charter. It is called a trade agreement and it is included, here, in the document called the Final Act, to which all the tariff changes are merely a schedule.

Mr. Chairman, I think at this point, unless you wish me to go on—we could talk all night about it. It seems to me some of the members of the committee have a perfectly sound point. If there are questions which could be asked now, of a general nature, it might expedite the detailed discussion later on.

Mr. MICHAUD: I should like to ask the witness a question as to whether—

The CHAIRMAN: I think we decided, Mr. Michaud, that tonight we would be content with a general statement. I am sure every member of the committee is grateful to Mr. McKinnon for his statement, and we are all now seized with a clearer understanding of our task.

Mr. LESAGE: Would it be possible for Mr. McKinnon to give us some idea about what the documents before us contain, the meaning of their various parts and how best we can proceed to make a study of them over the recess?

The CHAIRMAN: Would you make a motion to that effect and we will see what the committee wants to do?

Mr. JAENICKE: I think Mr. McKinnon said Mr. Deutsch was the man responsible for the drafting of the final act and he would be the one who might give us a short statement on it.

The CHAIRMAN: Might I know what the committee wants to do now?

Mr. LESAGE: As far as I am concerned, either Mr. McKinnon or Mr. Deutsch might give us an outline on that.

The CHAIRMAN: I would like the committee to decide now as to where we are going.

Mr. RINFRET: I would move, Mr. Chairman, that the committee hear Mr. Deutsch.

Mr. MICHAUD: I would second that motion, Mr. Chairman.

The CHAIRMAN: Gentlemen, you have heard the motion.

Mr. FLEMING: I thought we were all of one mind long ago, that we were going to hear the introductory statement from Mr. McKinnon and that we would then appoint the steering committee and let them line the work up.

Mr. HAZEN: Could we not have the introductory statement completed by someone telling us what these documents are and what they contain, and the best way to go about examining them?

The CHAIRMAN: We have a motion that we have a general explanation of the terms of the treaty, and Mr. Deutsch would be the man who would give that. All those in favour of the motion please signify.

Those opposed?

I declare the motion carried.

The CHAIRMAN: Mr. Deutsch, please.

Mr. DEUTSCH: Mr. Chairman, like Mr. McKinnon, I shall try to be very brief in this first part of the discussion with the committee and simply try to explain what these books are about. I assume you all have copies of the material in front of you and I shall in my discussion refer to them and try to indicate what these documents are.

First of all there is the document called the final act. That document contains the provisions of the treaty to which Mr. McKinnon has referred, together with the protocol of provisional application, the thing called the final act; I shall come back to this in a minute; and some supplementary agreements with the United States and the United Kingdom.

Now, the general form of the document that came out of Geneva was this: There was a document similar to this final act which contains the text of the general provisions elicited from the International Trade Commission. To these books are appended I believe some twenty schedules of tariff rates; there was a schedule for each country, and the second document you have before you is the schedule pertaining to Canada, Schedule 5. That is the schedule to this main document which contains the provision of the trade charter. Every country has a schedule; and this schedule like the schedule for Canada which is reprinted here as Schedule 5 contains the record of the tariff rates that were bound as a result of the negotiations at Geneva.

If you look at schedule 5, you will see the list of items taken from our tariff. These are the items with the numbers opposite them found in our tariff, and at the right are the lowest rates. Opposite each item there are the rates which were agreed upon as a result of negotiations, and if this agreement is ratified Canada will undertake that the rate shown, or that rates against the items will not exceed the rates shown on importation into Canada of those items. In other words, these are the rates that are bound if parliament ratifies this agreement.

Mr. JAENICKE: They are all reduced?

Mr. DEUTSCH: Not necessarily, some are reduced from the existing rates, others are bindings of the existing rates.

Mr. JAENICKE: Are there some increases?

Mr. DEUTSCH: No, not shown in here. The schedules for the other twenty countries, the other twenty schedules in other words, each of the other countries has a similar schedule and in those schedules they show the rates which they have bound with regard to the importations from any one of the other countries which have signed this agreement. And the rates mentioned in these

schedules; for instance, the rates mentioned in the Canadian schedule are rates which are accorded each of the other countries which have signed or will sign this agreement; therefore, it is a multilateral agreement, each country has bound itself to accord these rates to every other country that has signed the document.

Mr. PINARD: I see there is a part which is different from our section of the tariff?

Mr. DEUTSCH: I was going to elaborate a little further on the specific character of our schedule. As you gentlemen know, the Canadian tariff has many columns; indeed, I believe Mr. McKinnon says our tariff has at least five columns of rates. The columns which are most prominent and most widely applicable are the most favoured nation rates which are the rates we accord to other countries who accord us most favoured nation treatment, and the British preferential rates which are accorded to members of the British Commonwealth; and at Geneva we negotiated with countries both with respect of most favoured nation rates and with the United Kingdom with regard to our preferential rates and the result that most negotiations are shown in this schedule. The first part of the schedule refers to the most favoured nation tariff. That is accorded to all countries with whom we have most-favoured nation arrangement. The schedule shows the preferential part of this schedule, and in the table are the rates accorded to other countries of this commonwealth. And, as I said, we negotiated mostly if not entirely with the United Kingdom with respect to that. Other countries like the United States have not got a preferential system and their schedule simply is a table of most favoured nation rates.

Mr. MICHAUD: Does not France have some sort of preferential rates for trading with her colonies and other countries?

Mr. DEUTSCH: France has, yes. France has some which are more favourable to its own territories. The system in France is rather complicated. There are a number of French territories which have the same tariff rates as France itself, others have different tariffs and in certain cases like the Benelux there are preferential rates between the mother country and the colonies, that is true. I was simply trying to distinguish between our country and the United States. In the United States they have one column which is similar. In our case we have two, that is where we have one section for the most favoured nation rates and the other for the British preferential rates.

Mr. HARRIS: And I believe the United States has a special rate with Cuba and possibly the Philippines?

Mr. DEUTSCH: Yes, with the Philippines they have special rates which are to disappear over a period of years, and there is a preferential system with Cuba. Now, back to the larger document.

Mr. FRASER: Before you leave that might I ask a question? The way I understand it then is that Canada cannot raise her rates higher than what are here but they could lower them?

Mr. DEUTSCH: That is right, sir.

Mr. FRASER: Also they can do that without taking the matter up with the other countries affected?—am I right on that, can they lower it indiscriminately or do they have to lower all tariffs?

Mr. DEUTSCH: If they lower them they must supply it to all countries which have signed this treaty. I do not wish to get into too much detail on this. We are going to get into a great deal of detail if we go on that way. To come back to the document, the final Act, that is a collection of different documents—this particular print. On page 4 there is something called "Final Act adopted at the conclusion of the second session of the Preparatory Committee of the United Nations Conference on Trade and Employment". This final Act simply says that these twenty-three nations met at Geneva, they prepared certain documents

and in signing this particular final Act shown on page 4 they simply say that these documents are the documents which they prepared; there is no undertaking involved in that at all.

So that first document is simply an attestation of the documents which are prepared, and there is no commitment by governments or anything else involved in that particular phase of it.

The next document begins on page 6 and is called, "General Agreement on Tariffs and Trade". That document contains the provisions of the International Trade Charter which the twenty-three nations at Geneva wanted to bring into effect among themselves provisionally prior to the end of the world conference which is now sitting at Havana. These provisions contain the rules which are to govern international trade between the members who have signed this agreement—a general rule; and they cover such matters. I shall not go into detail now because this is a lengthy statement and would take a long time to go through; but I shall simply give the highlights only on this particular occasion. It contains the rules with regard to most-favoured-nation treatment. For instance, it spells out the nature of the tariff treatment which these countries which have signed this agreement will accord to one another. In other words, they will give one another most-favoured-nation treatment; they will not discriminate between one another and so forth.

Further on there is a section beginning on page 12 which speaks about "National treatment on internal taxation and regulation"; and thereon follow several sections having to do with various aspects of customs administration and the provisions spell out in some detail precisely how nations will treat one another with respect to their customs administration. There are certain rules set down with regard to admission of goods and the manner in which tariffs will be assessed and that sort of thing, and the way in which valuation will be made for duty purposes, anti-dumping rules and all that sort of thing.

Then on page 26 there is a set of provisions beginning under the heading "General elimination of quantitative restrictions." In these provisions rules are laid down regarding the use of quotas and prohibitions and invisible trade barriers of all kinds—a detailed set of rules set down as to how nations will treat one another in the application of quotas and licences and permits and all that sort of thing. Also in this set of provisions there are the detailed rules regarding the protection of the balance of payments of the signing countries, the exceptions that are allowed in the case of countries which are in balance-of-payment difficulties are also spelled out in this section.

Beginning on page 44 there is a section on subsidies—some very general rules about subsidization of exports and subsidies generally. Right under that on the same page is a statement, "Non-discriminatory treatment on the part of state-trading enterprises." Certain rules are laid down regarding the conduct of state-trading enterprises; rules which indicate the manner in which state-trading organizations will conduct their trading arrangements with regard to international trade. They are mostly rules about non-discrimination.

Then there is a section on page 46, "Adjustments in connection with economic development." Those are provisions which were inserted at the wish of the less industrialized countries, countries which wished to use some protective measures in a development of their industries; and certain provisions have been written into the charter and into this agreement to facilitate the wishes of those countries.

Then there is following that a miscellaneous set of provisions—I do not need to go into all of them in detail—having to do with emergency action, general exceptions, security exceptions and consultation. Those are all normal provisions in any agreement of this kind; territorial application, entry into ports, etc., and details of that sort. I do not need to go into all that because they are more or less normal parts of any agreement.

Then there is a series of annexes which are rather detailed. I do not think I want to take too much time with those at the present time.

Finally, on page 88, there was a document called, "Protocol of provisional application of the general agreement on tariffs and trade."

Mr. McKinnon has referred to that protocol. Under this protocol eight of the countries—the eight are named here—agreed among themselves at Geneva to bring these agreements to the tariff schedules into provisional effect beginning on January 1, 1948. Mr. McKinnon has explained that it was not possible for all the countries at Geneva to adhere to this protocol because of constitutional procedure; but the eight countries named were able to bring these agreements into effect provisionally. That means they are brought into effect in so far as the executive branch of the government can bring them into effect; that means in so far as legislation in the various countries permits.

Now, the eight countries named have done so. They have brought these agreements into provisional effect. It is purely provisional. Any of these countries can withdraw on sixty days' notice. The agreements under this protocol will remain provisionally in effect among the countries named until the document is brought finally into effect, and that will take place when countries representing 85 per cent of the trade of the twenty-three nations at Geneva have ratified these agreements. When that has happened the whole agreement becomes final and comes permanently into effect. I said "permanently." I mean in so far as the provisions of the agreement are concerned. This agreement is only for three years definite.

Then there is on page 92 an agreement between Canada and the United States supplementary to the general agreement on tariffs and trade. This note on page 92 is simply a note stating that while this agreement is in effect our Canadian and American existing trade agreement shall be held in abeyance or shall be suspended. It simply suspends the existing agreement while this agreement is in effect, and if this agreement, for some reason or other, should go out of effect, the existing trade agreement will come back into effect. This simply suspends the existing agreement for the time being while this is in effect.

There are some minor notes at the back. I do not think I need to detain the committee with them. Then on page 100 there is finally an exchange of notes, or an exchange of letters between Canada and the United Kingdom. The adoption of this agreement required certain modifications in our existing agreement with the United Kingdom. It also contains certain undertakings with respect to the British preference in the future between us and the United Kingdom and these undertakings are spelled out in this exchange of notes beginning on page 100. I think, Mr. Chairman, that covers the thing in a general way, and is all I need to say at this time.

The CHAIRMAN: Thank you.

Mr. HAZEN: What is this?

The CHAIRMAN: I am coming to that. Would the members of the committee now like to have a few minutes' explanation from Mr. Kemp as to the mimeographed memorandum?

Mr. KEMP: Mr. Chairman, when your committee comes to look into the tariff agreements that were made at Geneva, and that are coming up before parliament here for consideration you will no doubt wish to ask the questions, "What did we give with regard to tariff concessions" and "What did we get from other countries?" The question "What did we give" is answered by the document mentioned by Mr. Deutsch and Mr. McKinnon. That is schedule 5 which shows the new rates in the Canadian tariff, but the question "What did we receive" is a bigger question in a way because there are some 45,000 different tariff items which have been covered in the various agreements.

Obviously we have not tried to write down all the 45,000 items, but it was thought that your committee might be particularly interested in the changes that have been made in the United States' tariff which are likely to be beneficial to Canada. This little mimeographed report, which we have had put together in rather illegible form, I am afraid, in some instances, covers the principal items in the United States' tariff on which concessions have been made that it was thought would be beneficial to Canada.

The material here is confined to items of which we exported \$50,000 worth or more to the United States either in 1939 or in 1946. For all those items the document shows the name of the item, the United States' tariff number, the rate as it existed in 1930 under the Smoot Hawley tariff, the rate as it stood in 1946 before the Geneva Conference, and the rate that was agreed upon at Geneva.

Finally in the last two columns you will find stated the value of the imports from Canada into the United States in 1939 and in 1946, so that you can form some judgment on this basis as to the magnitude of the concessions that were made by which it is hoped that Canada will benefit. There are other concessions that are not mentioned here. This, for example, does not include the items that represent less than \$50,000 worth of trade although it may well be that some of those items will expand in future and may be more valuable than they have been in the past. Similarly this document does not include the items which were already duty free in the United States before the Geneva Conference. All those items are still duty free, but because there has not been any change in their status they are not included here. This is, therefore, just an attempt to indicate for you the highlights of what we have received in the tariff of one particular country.

Mr. FULTON: I wonder if it would be possible for the department to prepare in concise form a statement of the main concessions from other countries in tariff reductions of importance to Canada. This covers the United States. There are 45,000 items. I imagine when you multiply that by all the other countries there are more than that. Otherwise we are going to have to look through 19 separate tariff schedules, and we would have to know what they were in order to appreciate what the reductions mean. Would that be asking too much? Would it be possible to give us a statement of the highlights of the concessions made by other countries which will be of importance to Canada?

Mr. KEMP: That can be done, sir, if you wish it.

Mr. McKINNON: Apropos that question, the press release that was put out on the 17th of November is just such a statement as the member has asked for in that it goes through the whole 45,000 items and picks out the significant ones, indicates in almost every instance the old rate and the new rate and attributes the concession to the particular country that made it.

Mr. FULTON: I have looked through it, and it did occur to me most of the concessions appeared to be concessions made by the United States. It may be that is where most of our concessions arise. If so, I will be content.

Mr. McKINNON: It is done by tariff group, and although the United States comes first in almost every instance because they were, by a very great extent the chief trading nation with us, you will find under each tariff group subsequent paragraphs saying what concessions we get from Benelux in that group of commodities, what concessions we get from France, and so on.

Mr. FULTON: That is the nearest approach which can be made to the sort of thing I am asking for?

Mr. McKINNON: Yes. It took nearly a week to do that, and it was an attempt to condense the concessions we secured from all the countries.

Mr. MICHAUD: I understand Mr. Fulton has a copy of the press release issued at the time.

The CHAIRMAN: I will see that all members of the committee have a copy.

Mr. JAENICKE: Could the department also prepare a similar mimeographed sheet of our own tariff reductions that we have made or that we have proposed to make in this treaty?

Mr. McKINNON: We will have for the next sitting a key to be used in connection with schedule 5 which will show you the items, the former rates, both British preferential and intermediate, favoured nation, the proposed rates, both British preferential and most favoured nation, and the trade.

Mr. JAENICKE: In the two years, 1939 and 1946?

Mr. McKINNON: 1939 and 1946.

Mr. TIMMINS: Is there any change we should know about now having regard to the last pages of this, the final act between ourselves and the United Kingdom, that we ought to know about in the meantime?

The CHAIRMAN: Would you ask that question again?

Mr. TIMMINS: Are there any changes in this arrangement which appears in the exchange of notes between Canada and the United Kingdom since the signing of the protocol?

Mr. McKINNON: No, there have been no changes whatever.

Mr. MICHAUD: Mr. Chairman, Mr. McKinnon and some members of the committee have used the term "trade." I should like to ask what is meant by that. Does it refer to the other countries which are not included as part of this agreement? Reference was made to the most-favoured-nation rate and the preferential rate and then trade.

Mr. JAENICKE: Imports into Canada.

Mr. McKINNON: We show the value of the imports into Canada.

Mr. MICHAUD: I am sorry. While I am on my feet I should like to ask whether any of the parties to this agreement have ratified it through their governments or legislative authorities?

Mr. DEUTSCH: Not yet, sir; they are all applying it provisionally at this time.

The CHAIRMAN: Gentlemen, shall we excuse the witnesses and thank them for coming?

Mr. ISNOR: I wonder if Mr. Deutsch would tell us whether, under article 18, Canada is considered as an industrial country?

Mr. DEUTSCH: No attempt was made at Geneva to classify the countries.

Mr. ISNOR: I understood you to say there was a special provision made for the development of the less industrialized countries.

Mr. DEUTSCH: Yes, the less industrialized countries—a number of them—regarded themselves as capable of much further development industrially, and they wanted some provisions to help them along the road.

Mr. ISNOR: Was Canada placed in that category?

Mr. DEUTSCH: No one was placed in any category. It was simply a provision any country could use for its purposes but no attempt was made to classify the countries.

The CHAIRMAN: Thank you very much, Mr. McKinnon.

Now gentlemen, in regard to the appointment of the steering committee would each of the parties please indicate to me the members they would like to have serve on the steering committee. I had in mind that it might be wise to convene the steering committee before Easter so that witnesses could have proper notice.

Mr. JAENICKE: Are we not going to appoint the steering committee now?

The CHAIRMAN: My thought was that each party would indicate to me the names that they would like to have serve on the committee.

Mr. JAENICKE: Why not do it right now?

Mr. FRASER: How many are to be on the steering committee?

The CHAIRMAN: My suggestion was that we should have the size of committee that we have had before, three from the Liberal party, two from the Progressive Conservative party, and one each from the other parties.

Mr. MARQUIS: I would move that the steering committee be constituted on the basis just suggested by the chairman and that each party recommend names of members.

Mr. FRASER: I would move that the names be handed in sometime tomorrow.

The CHAIRMAN: The meeting is adjourned.

ADDENDUM

Ottawa, Ontario,

March 12, 1948.

G. D. FINLAYSON, Esq., C.M.G.,
200 Carling Avenue,
Ottawa, Ontario.

Dear Mr. FINLAYSON:

On Thursday, March 11, 1948, the Banking and Commerce Committee of the House of Commons held its first meeting of the present session.

On that occasion, at the suggestion of the Chairman, Mr. Hughes Cleaver, concurred in unanimously by the other Members present, I was instructed to convey to you an appreciation of the valuable services rendered to the Committee by you, and to express the hope that you will be spared many years to enjoy your well-earned retirement.

Yours very truly,

(signed) A. CHASSE,
Clerk of the Committee on Banking and Commerce.

Ottawa, Ontario,

March 17, 1948.

A. CHASSE, Esq.,
Senior Committee Clerk,
Room 443, House of Commons,
Ottawa.

Dear Mr. CHASSE,—

I have received with much appreciation your recent letter communicating to me the good wishes of the Chairman and Members of the Standing Committee on Banking and Commerce of the House of Commons on the occasion of my retirement from the public service.

I have greatly enjoyed the confidence which that Committee has been good enough to extend to me and my associates during the many years that we have appeared before it, and I would bespeak the continuance of that confidence for my successor in office.

Yours very truly,

(signed) G. D. FINLAYSON,

Gov. Doc

Canada - Banking & Commerce
Committee on 4/13/48

SESSION 1947-1948

HOUSE OF COMMONS

CA1 X213

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STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

Subject-matter of the General Agreement on Tariffs and Trade,
including the Protocol of Provisional Application thereof,
together with the Complementary Agreement of
October 30, 1947, between Canada and the
United States of America.

TUESDAY, APRIL 13, 1948

WITNESS:

Mr. J. J. Deutsch, Director of Economic Relations Division, Department
of Finance.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., I.P.H.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY

1948



REPORT TO THE HOUSE

HOUSE OF COMMONS,
WEDNESDAY, April 14, 1948.

The Standing Committee on Banking and Commerce begs leave to present the following as its

THIRD REPORT

On March 11, 1948, your Committee was empowered to print 500 copies in English and 200 copies in French of its minutes of proceedings and evidence.

The demand for the evidence taken on April 13, 1948, will be much in excess of 500 English and 200 French.

Your Committee recommends, therefore, that in respect of the evidence taken on the said April 13, 1948, authority be granted to increase the numbers of copies from 500 to 2,000 in English and from 200 to 500 in French, and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

NOTE.—Concurred in this day.

ORDER OF REFERENCE

WEDNESDAY, 14th April, 1948.

Ordered,—That the said Committee be granted authority to increase the numbers of copies of printed proceedings and evidence of April 13, 1948, from 500 to 2,000 in English and from 200 to 500 in French, and that Standing Order 64 be suspended in relation thereto.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS

TUESDAY, APRIL 13, 1948.

The Standing Committee on Banking and Commerce met this evening at 8.30 o'clock. Mr. Hughes Cleaver, Chairman, presided.

Members present: Messrs. Argue, Arsenault, Benidickson, Cleaver, Côté (*St. John's-Iberville-Napierville*), Dechene, Fleming, Fraser, Fulton, Gour, (*Russell*), Hackett, Hazen, Irvine, Isnor, Jackman, Jutras, Lesage, MacNaught, Marquis, Maybank, Michaud, Picard, Pinard, Rinfret, Stewart (*Winnipeg N.*), Thatcher and Timmins.

In attendance: Mr. H. B. McKinnon, Chairman of the Tariff Board, Mr. W. J. Callaghan, Commissioner of Tariff, Finance Department, Mr. R. Cousineau of the Tariff Board, Mr. J. J. Deutsch, Director of the Economic Relations Division, Finance Department, Mr. Hubert R. Kemp, Director of Commercial Relations Division, Department of Trade and Commerce, Mr. A. L. Neal and Mr. G. C. Cowper of the Department of Trade and Commerce.

The Chairman identified the following documents copies of which have already been distributed, namely:

1. Final Act of the Second Session of the Preparatory Committee of the United Nations Conference on Trade and Employment held at Geneva from April 10 to October 30, 1947. (*Treaty Series, 1947, No. 27—English and French.*)
2. Schedule V to the General Agreement on Tariffs and Trade. (*Treaty Series, 1947, No. 27A—English and French.*)
3. Foreign Trade Weekly Publication—Vol. II, November 22, 1947, No. 47, published by the Department of Trade and Commerce, including a relevant press release of November 17, 1947, found on page 1002.
4. Imports into the United States from Canada of principal and dutiable items on which concessions were obtained under the General Agreement on Tariffs and Trade for the calendar years of 1939 and 1946 showing rates of duty.

The Chairman referred particularly to the press release issued on November 17, 1947, and printed in the Foreign Trade Weekly Publication intituled "Multilateral Trade Agreement between Seventeen Countries, etc."

On motions of Mr. Timmins, this press release was ordered printed as an appendix to this day's minutes of evidence (*See Appendix A*).

Reference was also made to a voluminous document being "Principal Tariff Concessions Affecting Canadian Products Obtained Through the General Agreement on Tariffs and Trade." A motion of Mr. Fleming to print this document was deferred.

Mr. J. J. Deutsch was recalled, heard and examined.

The witness tabled for distribution copies of a document entitled "Declaration and Protocols arising out of the First Session of the Contracting Parties held at Havana during March 1948."

Reverting to the matter of printing documents tabled, and on motion of Mr. Timmins, it was *resolved* to print as appendices B and C respectively, the Principal Tariff Concessions and the Declaration and Protocols both referred to above, and to ask leave to increase to 2,000 in English and 500 in French the number of copies of this day's minutes of proceedings and evidence.

At 10.30 o'clock, the Committee adjourned until Thursday, April 15 at 8.30 p.m.

ANTONIO PLOUFFE,
Acting Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

APRIL 13, 1948.

The Standing Committee on Banking and Commerce met this day at 8.30 p.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: The members of the committee have already been supplied with the final Act of the second session of the preparatory committee of the United Nations Conference on Trade and Employment held at Geneva, Schedule 5 to the General Agreement on Tariffs and Trade, and a copy of the issue of November 22, 1947, of the pamphlet "Foreign Trade" which contains the press release with respect to these agreements. It has been called to my attention that this reprint of the press release is in such fine print as to be practically useless to members of the committee. It has been suggested that this should be reprinted as an appendix to our minutes of proceedings and evidence. If that is your wish would someone so move?

Mr. TIMMINS: I will so move.

The CHAIRMAN: It is moved by Mr. Timmins that the article printed in the pamphlet "Foreign Trade" under date of November 22, 1947, at page 1002 and following headed "Multilateral Trade Agreement between Seventeen Countries has Wide Application Here" be printed as an appendix to today's minutes of proceedings and evidence of this committee. All those in favour please signify? Carried.

(See Appendix A)

Then I have been furnished with a lot of other material late today. I think I would rather have the agenda committee pass on it and decide whether we should go to the expense of printing it. It is a matter of either printing it or having it mimeographed. It will be quite expensive to print it. If the committee is willing we will just withhold the decision as to these other documents until the agenda committee is able to meet.

Mr. FLEMING: What are they?

The CHAIRMAN: The bundle I have in my hand is entitled "Principal Tariff Concessions affecting Canadian products obtained through the Geneva Agreements on Tariffs and Trade". It has been prepared and handed to me by Mr. Kemp.

H. B. McKinnon, Chairman of the Tariff Board, recalled.

Hubert R. Kemp, Director of Commercial Relations Division, Department of Trade and Commerce, recalled.

Mr. MCKINNON: That is the information the committee asked for the night of the organization meeting. It has been all collated and compiled, but Mr. Kemp did not like to go ahead and print it because it is a very extensive set of tables. If the committee wishes to have it printed we will have in connection with the Canadian tariff a corresponding accumulation of data showing the Canadian items, the existing rates, the present rate, British preferential and most favoured

nation, the proposed rate, British preferential and most favoured nation, and the imports into Canada in years 1939 and 1946. It will be about double the size of that if the members of the committee wish to have it printed.

The CHAIRMAN: What is your wish?

Mr. FLEMING: There has been a lot of valuable work put into compiling that. It has permanent value. I think it is going to be a sort of foundation for the work of this committee. Should it not be printed?

The CHAIRMAN: Mr. Fleming moves that this material, the title of which I have just read, be printed. All those in favour?

Mr. ISNOR: Just a moment before you carry that. I wonder what the cost would be for printing it in the pamphlet "Foreign Trade" as compared to printing it in our own proceedings. If it is valuable to us it must be valuable to the subscribers and those who are making use of foreign trade. We might be able to make greater use of it at not very much greater cost—

Mr. TIMMINS: As I understand it, at the first meeting we had a schedule presented which had to do with the comparison with United States tariffs.

The CHAIRMAN: Yes.

Mr. TIMMINS: Then Mr. Kemp said he would do the same thing in respect to the tariffs of other countries. I understand you have got it there before you now.

The CHAIRMAN: Yes.

Mr. TIMMINS: I have found amongst business men they thought the compilation of the tariffs with respect to Canada and the United States was most helpful, and I would think these other tariffs would be most useful to us.

Mr. KEMP: May I say the report which we gave you at the first meeting covered only the United States concessions. What is here tonight is the United States plus all other countries. On the question of cost we inquired of the King's Printer how much it would cost to get our material out as a separate pamphlet, and considering the fact some small portion of it had already been set in type. His estimate was about \$600. That would apply to the concessions we got. I presume Mr. Callaghan's report on the Canadian tariff would probably be about the same size.

The CHAIRMAN: In view of the point which Mr. Isnor has raised I would think that it might be advisable for the committee to consider having a greater number printed of this one issue of our minutes of proceedings and evidence. If it is to be used for mailing to some additional mailing list I would expect that the King's Printer cost would not be any greater than the cost of printing the pamphlet "Foreign Trade" you have in your hand. If you think this information should be made available through a mailing list as well as to the committee, then it costs very little more to have two or three thousand run off when your type is already set up.

Mr. ISNOR: That is my point. Perhaps Mr. McKinnon could tell us how valuable that would be to the subscribers to *Foreign Trade*. It is a very fine publication and I believe it might be useful to have this information in it. If this information is valuable, which I presume it is, it should be included in *Foreign Trade*.

Mr. MCKINNON: What is in *Foreign Trade* is a reprint of the press release which was issued on the 17th of November. At the time we distributed copies of the press release to all members of both Houses. *Foreign Trade* is a publication of the Department of Trade and Commerce put out primarily I think for the use of their representatives in different parts of the world. I am not sure we would not find, if the committee wishes to have it reprinted, Mr. Chairman, that there are probably still any number of copies of the press release in the original form available. As a matter of fact, every member of both Houses

got one. The press got them, and they were distributed by the thousands to all inquirers. It might save a very large printing bill if you defer your decision until we make sure.

Mr. ISNOR: I think we had better reserve our decision and look into it.

Mr. MICHAUD: Really, that is for the steering committee.

Mr. HAZEN: I think we should reconsider the first resolution. I am not clear on this at all.

The CHAIRMAN: Yes.

Mr. HAZEN: Now, the article which is contained in this issue of November 22, of *Foreign Trade* states that it contains a summary of the concessions secured by Canada and granted by this dominion to other countries.

The CHAIRMAN: Yes.

Mr. HAZEN: That is not set out apparently here.

The CHAIRMAN: That is a summary and this is the detail.

Mr. HAZEN: Oh, this is the detail?

The CHAIRMAN: Yes.

Mr. HAZEN: Is it necessary to reprint this article that appears in the November 22 issue again? I do not find it difficult to read myself.

The CHAIRMAN: I think you are very fortunate if you find it easy to read.

Mr. LESAGE: You are very lucky if you find it easy to read.

The CHAIRMAN: How would the committee feel about simply deferring a final decision on this matter until the close of the present meeting? Our witnesses are here and we perhaps should not keep them waiting while we discuss this.

Some Hon. MEMBERS: Agreed.

Mr. MARQUIS: The whole matter will be deferred.

The CHAIRMAN: We will leave it over until the end of the meeting.

We have for our witness tonight Mr. Deutsch, who will give evidence particularly in regard to the terms of the agreement.

J. J. Deutsch, Director, Economic Relations Division, Department of Finance, called.

The WITNESS: Mr. Chairman and gentlemen: Before proceeding with the agreement it might be useful to the committee if I explain what happened at Havana with regard to this agreement which is now before the committee. As you know, the purpose of the Havana conference was to prepare a charter for an international trade organization. At Geneva the draft of such a charter was prepared. The draft was taken as a basis of discussion at Havana. As a result of the conference a document was prepared called a charter for an international organization. That charter is now being submitted to the parliaments of the various countries which attended at Havana and if approved by those parliaments the governments will ratify, and in due course if enough ratifications are submitted the charter will come into force. It is not expected that this charter will come into force before the middle of 1949, at the earliest. It provides that it shall come into force when half of the countries that signed the final act of Havana have submitted ratifications, and if one year after that less than half of them have submitted ratifications then the charter will come into force as soon as 20 countries have submitted ratifications. In any event this process will take until the middle of 1949. And so while the charter is ready and prepared it will not be effective for at least another year or a year and a half.

As you will recall from reading the Geneva agreements, there is an article which states that the corresponding provisions of the charter will replace the similar provisions in the Geneva agreement when the charter comes into force. I think we explained earlier that the general provisions of this agreement contain the bulk of the commercial policy provisions of the charter; but since these provisions of the Geneva agreement were taken from the draft of the charter it was subject to change at Havana. There had to be some provision for the substitution of the final provisions of the charter for the ones which were put into the Geneva agreement. Now that the charter is finished we know what the final form of these general agreement provisions will be. At Havana the nations included all the countries who signed the Geneva agreement and therefore while they were there they considered this question regarding the replacement of the existing provisions of the agreement by the new provisions of the charter where they were appropriate. A clause in the agreement, as you know, states that supercession shall take place unless some country objects. Any country could object to the supercession. At Havana the countries that signed the general agreement provisionally decided to make a declaration stating that they will not object to the supercession of the corresponding provisions of the agreement by the new provisions in the charter. That declaration was signed by all the countries signatory to the general agreement at Geneva, with the exception of Australia. There were a number of reasons why Australia abstained from signing the declaration but it is not expected when the time comes for the supercession that Australia will object. Therefore, the provisions of the agreement will be replaced by the provisions of the charter, and as soon as the charter has been signed by the various countries.

By Mr. Lesage:

Q. Were there any material changes?—A. There are a number.

Q. I mean, material changes?—A. I would say there are a number of material changes, and I will try to give you a very brief description of them this evening.

Mr. TIMMINS: May I ask you one question? There are only 8 nations which signed originally at Geneva?

The WITNESS: That is right.

Mr. TIMMINS: Could other countries which came in at Havana, and quite a number of other countries did come in there; could they supersede the eight original countries?

The WITNESS: That agreed to?

Mr. TIMMINS: Agreed to.

The WITNESS: They could if the eight original countries agreed, and they did. To come back to what I said earlier there was always a provision in the agreement stating when the charter is finished and comes into force the corresponding provisions of the charter should replace the same provisions in the general agreement, unless someone objects.

Mr. MARQUIS: One is sufficient.

The WITNESS: One is sufficient, yes. If one objects they have to discuss the matter among the countries that have signed the Geneva Agreement to see what solution they can arrive at. There was no rule stated as to the majority of votes deciding the issue, but it was simply left that they should discuss it and come to some agreement. At Havana, the countries which signed the agreement also signed the declaration stating they would not raise any objection. Australia, however, did not sign the declaration for some particular reasons into which I need not go at the moment.

The CHAIRMAN: Would you give the committee the article number?

The WITNESS: The article that provides for the supersession?

The CHAIRMAN: Yes.

The WITNESS: On page 64 of the Geneva Agreement, the document you have before you, there is an article, No. 29, entitled "Relation of this agreement to the charter for an international trade organization." It discusses the relation of this agreement to the charter and in that article it explains that when the charter comes into force the relevant provisions in the charter will automatically replace the corresponding provisions in the agreement, providing no one objects. Therefore, in order to see the agreement as it will be when it comes into force finally one must have regard to the clauses in the charter which will replace the corresponding clauses in this agreement. This supersession, however, will not take place until the charter comes into force and I have explained earlier the charter is not expected to come into force until at least the middle of next year. In the meantime this agreement will be in force in its present form.

Mr. MARQUIS: Since when has it been in force?

The WITNESS: Since the 1st of January. It is in force now, provisionally, and it will remain in force in its present form until the charter comes into force and supersession takes place.

Mr. ISNOR: What is the shortest period of time before the general agreement or rather the charter can come into force?

The WITNESS: For short reference I have referred to this Geneva document as the general agreement, and the other document I have referred to as the charter so I will distinguish the two by using those terms.

Mr. ISNOR: Yes, well I am referring to the charter.

The WITNESS: The charter will come into force sixty days after at least one-half of the countries have ratified it and that ratification is not expected to happen for another year and a half.

Mr. MICHAUD: What happens if half the countries do not ratify it?

The WITNESS: If half the countries do not ratify it at the end of one year from the date of signature of the said final act, namely the document signed at the conclusion of the conference in Havana—

Mr. COTE: When was the document signed?

The WITNESS: On March 25, I believe. It does not enter into force in accordance with the provisions of subparagraph (a), namely the provision requiring one-half then it comes into force "on the sixtieth day following the day on which the number of governments represented at the conference in Havana have deposited instruments in accordance with the agreement hereby shall have reached twenty." In other words after one year has elapsed and half the governments have not submitted ratification then it will come into force sixty days after twenty governments have submitted ratification.

By Mr. Lesage:

Q. Do you not think that is what is going to happen? You say it is going to take a year and a half before half of the countries have signed?—A. Well the forecast I am making here is based upon the consensus of opinion among the countries at Havana as to how quickly the various governments can act, and the general consensus of opinion was that it would take about a year and a half.

Q. How many countries did sign?—A. I believe fifty or fifty-one.

Mr. MARQUIS: Czechoslovakia was among those who signed the agreement?

The WITNESS: Czechoslovakia was among the fifty-one that signed the final act at Havana. Poland was not signatory. Poland was at Havana but it did not sign.

Mr. MARQUIS: Is it only satellite of Russia?

The WITNESS: Czechoslovakia is the only eastern European country that signed the final act. Therefore the point of this is that until the charter does come into force the Geneva Agreement, the general agreement, will remain in force in its present form. Therefore it is a separate document by itself during this period.

By Mr. Timmins:

Q. Right now there are just eight nations carrying on under the Geneva Agreement?—A. Nine. There were eight original countries and since then Cuba has signed.

Q. Do you expect the other countries will, one by one come in under the provisional arrangements?—A. Yes, we expect some countries will come into this Geneva Agreement between now and next year. How many countries will come in we do not know, but we expect to have some. Up to the moment we have not received enough copies of the charter to distribute it to the members of the committee. We have been trying urgently to get more copies but we have not succeeded. As soon as we obtain them we shall see that the members of the committee have copies.

By Mr. Hackett:

Q. I suppose as yet no country has ratified? There has not been time since the 25th of March?—A. No, no country has ratified the charter, and no country has ratified the general agreement. The signatures so far are only for provisional application and they have only been signed by the executives of the various governments. There has been no approval by the parliaments of these countries.

Q. Did you say that fifty-one countries or only eight countries had signed the general agreement?—A. The general agreement was signed at Geneva and at that conference there were only eighteen countries.

Q. Eighteen?—A. And of those eighteen countries eight brought it into provisional effect. Since then Cuba has brought it into provisional effect, making a total of nine countries.

Q. The seventeen remain signatories?—A. They remain signatories subject to later application.

By Mr. Lesage:

Q. Because they had to obtain constitutional powers from their respective countries?—A. That is right. The reason only eight countries signed for provisional application at Geneva was that the other governments were not able to bring it into effect provisionally by executive action. Many of them had to go to their parliaments and there was not time to do that. In the case of Canada, the United Kingdom, Australia and so on, the government has executive power to bring it into effect provisionally and that is what was done.

In our case the government has power under the Customs Act to make reciprocal trade arrangements and it is under that power our government brought this agreement into effect.

By Mr. Hackett:

Q. What other countries brought it into effect?—A. Canada, the United States, the United Kingdom, Australia, France, Holland, Belgium, Luxembourg and now Cuba.

By Mr. Lesage:

Q. Under the executive power Canada could not increase the rates, but could reduce them?—A. That is quite right. By executive power the government can only reduce tariffs, they cannot raise tariffs.

By Mr. Fleming:

Q. Were any changes made in the Canadian tariffs by bringing the charter into effect in this way?—A. Not the charter, the general agreement.

Q. I thought we were speaking a moment ago about the charter. I may have misunderstood you, but I thought the powers given to the executive under the Customs Act had been used at Havana?—A. Not Havana, sir, at Geneva. In other words, they brought the general agreement into provisional effect including reductions in tariffs which were negotiated at Geneva.

Q. Your remarks applied only to the general agreement, not the charter?—A. Not the charter; the charter is in no way in effect. The Canadian delegation, in signing at Havana, merely said, "We were at Havana; we prepared a document and we attest that this is the document that we prepared"; that is all the signature at Havana means.

Q. Were you at Havana?—A. I was there for a period of time, but I was not there throughout the conference.

Q. Who were the Canadian delegates at Havana?—A. The Canadian delegation was headed by Mr. Wilgress, formerly the Deputy Minister of Trade and Commerce and now the minister to Switzerland. He headed the delegation at Havana.

By Mr. Lesage:

Q. Both at Geneva and Havana?—A. That is right.

By Mr. Fleming:

Q. Who were the senior advisers, any of the gentlemen who are with us tonight?—A. None of these gentlemen were there. The advisers were Mr. Hebert, formerly a member of the tariff board; Mr. Couillard, Department of Trade and Commerce and Mr. Neil Perry, of the Department of Finance.

By Mr. Pinard:

Q. Mr. Couillard had been in Geneva?—A. That is right, sir. Those men were the principal advisers.

By Mr. Jackman:

Q. Under what agreement did the government reimpose the Empire preference tariffs? They were suspended during the war years in order to allow British imports to come into the country. How were they reimposed, under the Geneva agreement or how?—A. The restoration of those British preferential rates which were suspended during the war had nothing whatever to do with, and were not the result of this agreement. Provision was made for that in the Act under which they were reduced, the Foreign Exchange Conservation Act, as I believe it was called. It contained a provision which stated, with the cessation of hostilities the tariffs would be restored to their original level. The restoration occurred automatically under that Act, by the terms of the Act itself.

Q. I suppose there were no other alterations in the tariffs against the various countries which took place under the Foreign Exchange Control Act, were there?—A. No, as I recall now, it concerned the British preferential rate. Of course, there were other reductions during the war on a temporary basis. In order to aid the acquisition of scarce supplies during the war, a number of

tariffs were suspended temporarily. They have, by and large, all been put back. There were about 200 reductions, I believe, and there are about 50 still outstanding.

By Mr. Hackett:

Q. Could Mr. Deutsch say what number of commodities were withdrawn from discussion by the United States and what was the basis of the list of articles which were not subject to discussion concerning tariff arrangements affecting Canada?—A. I do not know whether Mr. Kemp could answer that question. Mr. Kemp might explain the basis upon which the United States negotiated, and I think that will answer your question, sir.

Mr. TIMMINS: Ought we not to finish with one subject, first?

The WITNESS: We are getting off on another subject, here. I do not know what the committee wishes.

Mr. HACKETT: I am quite willing to suspend my question.

The CHAIRMAN: I wonder if the committee would care to have Mr. Deutsch outline the more important changes in the charter entered into at Havana as they would affect the agreement.

Mr. TIMMINS: Including matters of principle.

Mr. HACKETT: I think it is a matter of principle—I am not insisting upon my question,—to know roughly what proportion of items subject to tariff were withdrawn by the United States before it entered the conference.

The CHAIRMAN: And the reasons; I have made a note of that, Mr. Hackett.

Mr. HACKETT: Thank you.

The WITNESS: Mr. Kemp is in a position to explain that. What I had intended to do was to bring the committee up to date on the status of this agreement. I have already explained why there would be changes and now I wish to go into some of the changes which were made at Havana.

By Mr. Isnor:

Q. Before the witness proceeds, in order that I may have a clear picture, I understand we are dealing now with the Geneva agreement?—A. That is right, sir.

Q. It has nothing to do with the charter. At present, let us forget the charter.

Mr. TIMMINS: He is coming to that.

Mr. ISNOR: For the moment—

The CHAIRMAN: If you do not mind, Mr. Isnor, as I understand the witness, the charter is a new arrangement and the witness is now going to explain to the committee the salient changes which the coming into effect of the charter will cause to the terms of the Geneva agreement.

Mr. ISNOR: My first question hinges on the second; which will it be necessary for parliament to ratify?

The WITNESS: At this stage, I understand it is the government's intention to ratify the Geneva agreement.

Mr. ISNOR: It is for that reason I was asking and, if that is so, why should it not be stated?

The CHAIRMAN: I take it the reason why we should not is this; this country is already committed to the Havana charter by having filed notice that it will not contest or it will approve of the Havana changes to the Geneva agreement. Is that not right?

The WITNESS: I should explain that more carefully. I am sorry this is so complicated. It is terribly complicated. Many things have been responsible for creating this complexity. We are not responsible, but there it is and we have to deal with it.

Mr. LESAGE: Should you not explain a little more fully that the agreement was part of the original draft charter? It is part of the original draft charter, is it not? There was a draft charter at Geneva. Would you start from there, please?

The WITNESS: All right, I will start from the beginning again. I quite appreciate the difficulties which the members of the Committee have. It is a very complicated business into which we have fallen by a series of processes, all of which are understandable, but the result is very confusing.

At Geneva, two things were done. One was the negotiation of tariff reductions between the 17 countries which were present at Geneva. Each one of the 17 countries negotiated with each one of the others, agreements between themselves to reduce tariffs and the results of those negotiations are contained in a schedule to this agreement. In that schedule each country has written down the tariff treatment which it will accord to each of the other countries.

By Mr. Marquis:

Q. Each country negotiated with the 16 other countries?—A. That is right.

By Mr. Michaud:

Q. Separately?—A. In pairs.

The CHAIRMAN: I wonder, gentlemen, if it would not be better if the witness were permitted to make his explanation. The members of the committee could make a note of their questions and ask them after the witness has completed his statement. These interruptions break the continuity.

The WITNESS: Each one of the seventeen negotiated with each one of the others in pairs of two. There were altogether, therefore, some 100—I believe 108 or 112 separate negotiators. If you take the permutations and combinations you can figure it out algebraically. You have 100 or more negotiations and the result of those negotiations were stated in the form of schedules which are attached to this agreement.

Mr. HAZEN: The general agreement?

The WITNESS: Yes. Each country shows a schedule and on that schedule is stated the various commodities on one side and the tariff rates which that country will apply to the imports of goods from each of the other countries.

Those rates are bound for the period of this agreement and the individual countries cannot raise those rates in applying duties against the other imports of the other countries, or rather to the members of this club. The Canadian schedule is schedule 5, which has been distributed to members of the committee.

Every other of the seventeen countries has a similar schedule in which they state the tariff treatment which they will accord for the specific commodities from each one of the other countries.

Mr. HACKETT: The same for everybody.

The WITNESS: The same for everybody. It is the most favoured nation rule. The negotiation of those tariffs and the agreement to those schedules—that was one phase of the work.

In order to make these tariff bindings effective to nations which agreed to bring those tariff bindings into effect, it was necessary for them to agree to certain rules with respect to other matters that might affect the importation

of goods; because the schedules only state the tariff rates; but there are such questions as these: What customs treatment is to be given? How are customs to be administered?

Because clearly you can put all sorts of impediments in the way of imports through the machinery of customs administration. Similarly, you could effect the importation of goods by the application of quantitative restrictions of all kinds. In other words, you could use a permit system and quotas and things of that kind. These devices could very materially affect the flow of trade—there are a whole series of things that countries could do that could overcome or could nullify the tariff reductions—obviously. So, in order to make those tariff reductions effective there had to be agreement on a series of rules—rules regarding the treatment of foreign trade.

It was decided to draw up an agreement which contains the rules by which all will abide in treating one another's goods, in addition to the specific tariff treatment agreed upon; because tariff treatment alone does not cover the situation. Now, as I said, the negotiation for tariffs was one of the main jobs. The other phase of their work was the preparation of a draft charter. The draft charter was to be a document which contains all the rules regarding the conduct of foreign trade. It was simply a draft; it was a draft which was to be prepared for submission to the world conference. When the world conference met, of course, it would not have been very fruitful simply to have called fifty nations together and said, "Let us have a body of rules." You had to have something to talk about. You had to have an agenda. You had to have proposals to discuss. And, therefore, the job of the nations at Geneva was to prepare a set of proposals, to prepare a draft.

MR. HAZEN: Is that what you call the general agreement?

THE WITNESS: I am coming to that. They prepared this draft agreement which was going to be submitted to Havana as the basis of discussion. The countries at Geneva said, "Let us take the rules we put into the draft charter, and among ourselves—the countries which signed at Geneva—let us take those rules which are now in the draft charter and bring them into effect as between us." The compilation of rules which they agreed to take out of the draft charter, plus the schedules, constitute the Geneva agreement.

THE CHAIRMAN: And knowing that the world conference would make some changes, undoubtedly, then by article 29 in the Geneva agreement, the machinery was provided for incorporating the charter into the Geneva agreement?

THE WITNESS: That is right. The Chairman has explained that since we took the rules out of the draft charter, which was the draft charter being later submitted to a world conference, and the world conference might change some of those rules, there had to be a clause in the Geneva agreement which said that when the rules are finally adopted there shall be provision for the substitution of the final rules for the draft—rules that we put into the Geneva agreement—and that is how we arrived at this situation that there shall be a substitution of a number of the rules in the Geneva agreement by the final rules in the charter.

THE CHAIRMAN: The said paragraph 3 of article 29 provides that those new rules or any altered rules at Havana cannot be compulsorily forced upon the contracting parties at Geneva without unanimous consent.

THE WITNESS: Yes. So we arrive back at the situation stated earlier that the countries which signed the Geneva agreement, who were at Havana and have said, "We have signed the final rules; we have been here and discussed them; and we declare right now that we will raise no objection to the substitution of the final rules for the draft rules in the Geneva agreement—

THE CHAIRMAN: Excepting Australia.

The WITNESS: All, excepting Australia, stated they would not raise any objections.

The CHAIRMAN: Are there any questions, gentlemen?

Mr. TIMMINS: What new principle was evolved out of Havana?

The WITNESS: Now, if you like, I can go on to the principal changes that were made.

The CHAIRMAN: Yes, do that.

The WITNESS: One of the principal changes that were made at Havana that affect the general agreement at the present time are the rules having to do with the balance of payments. Article 13 is the article on page 32, under which nations undertook not to discriminate in the application of restrictions on trade from other members.

The CHAIRMAN: And what change did Havana make?

The WITNESS: Article 14 contains the exceptions to the rule of non-discrimination. Certain exceptions were allowed to this general undertaking not to discriminate. The exceptions have to do with balance of payment difficulties.

As you know the agreement provides that when a country gets into balance of payment difficulties, and there are certain procedures have to be gone through to determine whether the country is in such difficulties, that country may control its imports by means of quantitative restrictions. Under article 13 those quantitative restrictions have to be non-discriminatory, but there are certain exceptions allowed to that situation. The exceptions are stated in article 14. The exceptions to non-discrimination are allowed particularly to take care of the peculiar difficulties in which the world is at the present time and, recognizing the disjointed condition of world trade at the moment and the shortage of United States dollars all over the world and the lack of convertibility of currencies, that the rule of non-discrimination might be frustrating to the revival of world trade. Under conditions such as the present many countries argued that it is possible to achieve a larger level of trade under certain types of discrimination. Therefore provision was made that discriminatory restrictions might be employed where it can be shown that with discrimination a larger volume of trade can be achieved than without it.

By Mr. Benidickson:

Q. Can you give us an example?—A. Yes. This is an example that was used pretty generally. If a country holds inconvertible currency it could enjoy more imports if it could use that inconvertible currency than if it could not. Let me put that in concrete terms. Suppose the United Kingdom—I am using it as an example, not as an actual case—held Danish crowns. Let us say it had accumulated Danish crowns, Danish crowns which are inconvertible. In other words, those Danish crowns could not be sold on the exchange market for United States dollars or gold. They are inconvertible. Suppose the United Kingdom holds these Danish crowns and has an ample supply of such crowns, more than it could readily use. Suppose that the United Kingdom is in balance of payment difficulties and applies quantitative restrictions on imports. In other words, they put imports into the United Kingdom under control. If the United Kingdom were non-discriminatory in its controls it would have to control the imports of all countries equally. That is the essence of non-discrimination.

By the Chairman:

Q. Including Denmark?—A. Including Denmark. The restrictions they would put upon the importation of goods from Denmark would have to be equally severe as the restrictions put upon the importation of goods from Canada. The United Kingdom people may well say, "it is true we are short

of dollars. We have not got all the dollars we want and therefore we have to restrict imports, but we have got plenty of Danish Crowns, and so if you allowed us to import relatively more from Denmark than from the dollar area we could enjoy more imports and still it would not cost us more convertible currency. In other words, we would not need to use up any convertible currencies if we were allowed to use these Danish crowns of which we have a large stock in buying imports from Denmark, but if we are not allowed to discriminate we could not do that. We could not use those Danish crowns. We would have to restrict imports from Denmark to the same extent we restrict imports from the dollar countries." In that sense by discrimination the United Kingdom could obtain more imports than they otherwise could afford.

By Mr. Timmins:

Q. Who would put the stamp of approval on that?—A. During the period immediately after the war, the so called transitional period, there is no prior approval required to put such discriminatory controls into effect. In other words, a country simply has to be able to demonstrate that by adopting a discriminatory program it could get more trade than it otherwise could.

By Mr. Benidickson:

Q. Demonstrate to whom?—A. Demonstrate that to the organization, to the body which is going to administer this agreement—if someone complains.

By Mr. Pinard:

Q. And if it does not succeed in demonstrating it was in need of doing that?—A. Then it would have to cease discriminating. However, that test could only arise if someone complained. They do not have to demonstrate that at the outset.

By Mr. Hackett:

Q. Is there some tribunal?—A. Yes, the tribunal will be the representatives of the countries which have signed this agreement.

By Mr. Timmins:

Q. Do you have to notify the organization you are going to do it?—A. No.

By the Chairman:

Q. Would you care to indicate now to what extent the Havana Charter has—
—A. Changed the situation.

Q. Changed the rule of non-discrimination made at Geneva.

By Mr. Fraser:

Q. Before you go on to that you mentioned that could happen after a war?—
A. After this war.

Q. For a period after the war; how long is that period?—A. That period is generally expected to be about five years in which the countries can put discriminatory control into effect if they can demonstrate that thereby they can get more imports than they otherwise could.

Mr. MARQUIS: Would the witness say...

The CHAIRMAN: Let the witness answer Mr. Fraser's question first.

The WITNESS: And they can do this without getting prior approval or demonstrating it beforehand until somebody complains. You see some other country may say, "I am hurt by this, and I am complaining", and if the complainant can establish that the other country is not acting within this rule

then the organization may require him to cease. That is true for the first five years. After five years discrimination is not allowed except on prior approval.

By Mr. Fraser:

Q. Is that five years mentioned in the agreement?—A. Yes.

Mr. MARQUIS: That was my question.

By Mr. Fraser:

Q. Whereabouts is that mentioned?—A. Page 38, paragraph 3 on that page.

After March 1, 1952, no contracting party shall maintain or institute such action without determination by the contracting parties.

By Mr. Lesage:

Q. It is still in the charter?—A. Yes.

By Mr. Benidickson:

Q. Canada found itself in dollar difficulties and took some steps for its own protection. Were any of those steps discriminatory?—A. Not formally.

By Mr. Lesage:

Q. What about automobiles?—A. Not formally although there are discriminatory elements in the Canadian program. There are some.

Q. What would they be?—A. Automobiles are a case in point.

Mr. HACKETT: Would you be a little more specific when you say there are elements; some of us understood that there was discrimination within the different definitions of the agreement. Is that correct?

The WITNESS: That is correct. In other words a degree of discrimination. Generally speaking the import program in Canada is nondiscriminatory.

Mr. BENIDICKSON: Generally speaking, we endeavour to provide our protection on articles which would increase our imports from sterling areas and not be discriminatory against the United States?

The WITNESS: That is right. Our program in operation at the present time endeavours to adhere to the spirit of nondiscrimination but in doing so it is applied in such a way that it will not interfere with the imports from the soft currency countries. That is not a hundred per cent true. There are some incidental exceptions, but by and large the purpose is not to interfere with the imports from soft currency areas, including the sterling area, while restricting imports from the hard currency areas keeping within the general spirit of nondiscrimination in the agreement.

Mr. LESAGE: It was discriminatory in choice of articles but not in procedure.

The WITNESS: The articles of course were chosen having in mind the amount of hard currency that was used to buy them. That is the way they were picked. You choose your articles in such a way that you get a result which enables you to save relatively more hard currency, you seek to get almost all of your saving in hard currency.

Mr. LESAGE: And each country is free to select its own commodities?

The WITNESS: As far as commodities are concerned, that is always up to the countries concerned.

Mr. ISNOR: Are we still at Geneva, or have we reached Havana?

The WITNESS: We are still at Geneva. I have not yet introduced the Havana agreement.

Mr. ISNOR: Now that we are still at Geneva, Mr. Wilgress raised a point about the British preferential tariff and admittedly notified the United States that they propose placing before parliament an amendment to the 1907 tariff arrangements. Was that necessary; and, if so, is there something in the agreement that touches on that?

The WITNESS: Well, Mr. Isnor, that is another part of the agreement and has nothing to do with balance of payments. Do you want to go into that now?

The CHAIRMAN: I have made a note of that to be dealt with when we come to it. The witness is taking up one at a time the several points leading up to the Havana agreement, and right at the moment he is dealing with the non-discriminatory phase of this section.

Mr. ISNOR: You are getting pretty close to Havana anyway.

The CHAIRMAN: We hope to reach Havana to-night on nondiscriminatory trading.

The WITNESS: I have no objection to answering questions at all, but it gets off into a different field.

The CHAIRMAN: I have made a note of that.

Mr. JACKMAN: In connection with the balance of payments, is each country free to make its own selection? Can you select the period on which it will be based?

The WITNESS: There is nothing said here in the agreement about the period. In making such a selection, of course, I think that one has to have regard to the spirit. While there is nothing said about the base period obviously no one would take as a base period 1846, or something that is clearly outrageous. As a matter of fact, nothing is said about the base period you choose, but obviously you must use a base period you can justify. In the Canadian import control program years immediately preceding the war were taken as representing a more normal situation than the situation which prevailed during any of the war years; or, indeed, any of the years immediately following the war. The theory was that those years were not normal years and it was obvious on the face of it that Europe was not in a position to occupy its normal position in world trade, and to have frozen controls on a base that was abnormal might have been very hard on the Europeans; therefore the theory was that it would be much more in accord with the realities of the situation to take a more normal period on which to base your controls, and that was done. I am not arguing one way or the other, but that was the thought.

By Mr. Jackman:

Q. In your balance of payments position you made use of the example of a country that had an excess of soft currency which you could use. You have also agreed that a country may choose its base period?—A. Within reason, Mr. Jackman.

Q. Within reason?—A. Yes.

Q. Are there any other forms of discrimination which are considered nondiscriminatory?—A. Well, the ones that I have already mentioned, that you can pick your commodities. That is the step most generally adopted.

Mr. HACKETT: Before you leave that, if there is no range of time within which we may choose a base period it would seem to me that the agreement is rather loose and might be abused by people who are scrupulous. For instance, you take imports of silk, which someone mentioned, 1846; if you said 1946, or 1936—

The CHAIRMAN: That would be highly discriminatory.

The WITNESS: That is quite true. The agreement is not absolutely precise on these things and it can be abused; but there are general provisions in here that

any country that is signatory to this agreement may complain about the action of any other country.

Mr. HACKETT: What I was coming at is, are there any general provisions in the agreement which state that good faith and fair dealing shall be a standard?

The WITNESS: That is right.

Mr. HACKETT: Where is that?

The WITNESS: Well, it is put in a sort of negative way. There is a clause in here which relates to the method of dealing with complaints. A complaint about the operation of any part of these agreements. Any country which feels that any other country is not carrying out the spirit of this agreement may complain, and it can establish its complaint, prove its complaint—

Mr. JACKMAN: To whom?

The WITNESS: To the organization, the body which administers this agreement. And the body which administers it are the representatives of the countries which signed it. It can establish through its representatives that another country is not living up to the purposes and objectives of this agreement that country can take sanctions, the complaining country can take sanctions against the country complained about.

The CHAIRMAN: Where is that found?

The WITNESS: You will see on page 56, there is an article called "Nullification or Impairment"; and it begins by saying:—

If any contracting party should consider that any benefit accruing to it directly or indirectly under this Agreement is being nullified or impaired or that the attainment of any objective of the Agreement is being impeded,

etc., etc., they can lodge a complaint and the other country must come in and discuss the complaint and if no satisfaction can be obtained in that way then the organization may allow the complaining member to take sanctions against the country complained against.

By Mr. Lesage:

Q. And on other countries?—A. And such other members of the organization are permitted to do so.

Q. What would be the sanctions? Are they provided for?—A. Sanctions are provided for. Throughout the agreement the complaining country, if it establishes its complaint, may withdraw concessions it has made to the country complained about. In other words, it may raise its tariffs or it may put on controls or do anything to revoke any concession made under this agreement.

Mr. MICHAUD: If the complaint is recognized as valid?

The WITNESS: Yes. That, Mr. Hackett, is the procedure for keeping a check on the abuse of the provisions.

By Mr. Fraser:

Q. You said the complaining country could raise tariffs but are they allowed to raise the tariffs?—A. Yes, if that country is granted the right to use sanctions.

Q. That is the only time a country would be allowed to raise the tariff?—A. Yes, tariffs bound under the agreement.

Mr. PINARD: Would the other countries be allowed to raise their tariffs against the country complained of?

The WITNESS: That is a matter which the organization would have to decide. If it was a very serious complaint or an infraction which affected many of the other countries I would assume the organization would allow the other countries to apply the sanctions. If it was something of which only one country

complained then only that complaining country would be allowed to raise the tariffs. The agreement is written rather generally and gives the organization considerable leeway. In effect the organization has pretty wide discretion in stating how extensive the sanctions ought to be.

Now to get back to the Havana conference. The exceptions to the rule of non-discrimination laid down in the Geneva Agreement are somewhat more rigid—

By Mr. Michaud:

Q. May I ask a question at this point? Is it only countries belonging to the United Nations that took part in the trade discussions at Geneva?—A. No. There were other countries there who were not members of the United Nations.

Q. So Havana was just a continuation of the general trade discussions?—A. Yes, a continuation but with more countries. At Geneva it was just a selected group but at Havana it was a world conference. At Havana there was no restriction to only U.N. countries participating. I would mention, that Switzerland, which is not a member of the U.N., was represented at Havana.

Mr. PINARD: How many nations were represented at Havana?

The WITNESS: Fifty-three.

Mr. BENIDICKSON: Was the Havana organization set up under the United Nations?

The WITNESS: Yes, by the Economic and Social Council. The clause in the Geneva Agreement dealing with the exceptions to non-discrimination is somewhat more limited than the provisions of the International Monetary Fund. Under the International Monetary Fund, which is a separate organization as you know, dealing with exchange and matters of that sort, there are certain rules regarding discrimination. Those rules under the International Monetary Fund are somewhat more liberal for certain countries than they are under the Geneva Agreement. At Havana, countries which had more freedom with regard to discrimination under the International Monetary Fund said that they did not want to restrict themselves to the extent required to adhere to the Geneva rules. They wanted to be able to retain the freedom under which they worked under the International Monetary Fund. That was the case with most of the European countries.

Mr. LESAGE: France?

The WITNESS: Yes. The International Monetary Funds has made particular exceptions for countries that were badly damaged during the war. They were very lenient about what countries in that position could do, and, in effect, they said those countries could continue to do what they were doing when they signed the Monetary Fund agreement, and they could adapt their programs to changing circumstances. That was a very broad exception for those countries.

Mr. BENIDICKSON: Discrimination was allowed on what kind of things?

The WITNESS: They said, "well now, if you are asking us to sign the Geneva Agreement or the International Charter we would be asked to give up some of the freedom which we have and we do not wish to do that." They said conditions were very bad; the trade situation in Europe had not improved very much, and we don't want our hands tied. They argued successfully at Havana that they should retain the full measure of the freedom which they had under the International Monetary Fund. Therefore at Havana a second option was written into this clause stating that countries may operate under the clause in the Geneva Agreement or they may operate under provisions similar to those in the International Monetary Fund, and the members of the organization may choose whichever option they wish.

Mr. TIMMINS: Is the International Monetary Fund going to be a continuing fund?

The WITNESS: Yes. The exceptions under the International Monetary Fund I must explain also terminate. They apply only during the transitional period. This freedom is given during the transitional period. After that the exceptions are withdrawn, and no discrimination can be undertaken without prior approval.

By Mr. Lesage:

Q. Is it your opinion, Mr. Deutsch, that the wide scope of the powers, I am thinking of this five year period particularly, would defeat the purpose of for instance article 23 of the agreement?—A. I see what you mean. It is recognized that this freedom is given during the transitional period and any country may complain about the use of that freedom during the transitional period provided that the freedom is used in a way which is clearly abusive.

Q. There could not be any complaint? That is why I am asking the question?—A. Unless the freedom was used in quite an abusive manner.

Q. What I am afraid of is there will be so much freedom that the agreement will have no effect at all?—A. This was the dilemma. The world as it emerged from the war was, with respect to trade, in such a disorganized condition that to launch immediately into a regime of multilateral trade agreements pure form was impossible. Currencies were inconvertible, there was inflation in many countries, commodities were scarce, and controls were everywhere. In that kind of a situation to have instituted a system of pure multilateral trade at once was clearly impossible.

Q. In your opinion it was better to have a foundation than to have nothing at all?—A. Yes. During the temporary period—we hope it will be over in five years—we must allow a lot of things which we would normally not allow.

Mr. PINARD: The period could be extended to more than five years.

The WITNESS: Yes, but for five years we must allow the countries in difficult circumstances to have a free hand in respect to a number of things which, granted, are not desirable from the long-run point of view. We hope in that five year period that economic conditions will improve and that countries will abide by the spirit of the rules. The theory was if you have an organization and rules are laid down you can influence reconstruction in the direction of a desirable state of affairs, and that is what is intended here.

By Mr. Lesage:

Q. And it is to that extend there was hope at Havana that this would work?—A. That is right.

Q. The charter would work?—A. Most of the basic rules here will not be fully operative during this period of transition. There are exceptions allowed during this period.

By Mr. Michaud:

Q. Before we leave this point of discrimination and the discrimination allowed certain European countries under the Monetary Fund, I gather those countries may use the discrimination clause under the agreement or the one under the Monetary Fund?—A. That is right.

Q. Does that apply to Canada as well, or are we bound by these rules in the agreement?—A. I should explain that. I said earlier the countries may elect which set of rules they will use. Naturally, in electing the option they will have regard to the rights which they would have under each set of rules. Under the international Monetary Fund Canada has no right to discriminate. Under the

International Monetary Fund, the clause dealing with discrimination stated that countries may retain for a transitional period the control programs which they had in effect at the time of adherence. The Monetary Fund, I believe, was signed in March of 1945. At that time, we had no controls on imports. We had no discriminatory controls on imports in 1945 and therefore we have no rights under that clause. We were not damaged by the war and we have no right to discriminate under the fund but the European countries have. We are bound to work under the clause in the Geneva Agreement. We really have no choice in electing which one we will use. Many of the European countries will elect to use the Monetary Fund option because under that option they have a greater freedom of action.

Q. All this comes under the amendments which have been drawn up at Havana?—A. At Geneva we only had one set of rules but at Havana they agreed to add this additional option giving some European countries the right to use the Monetary Fund clause.

By Mr. Pinard:

Q. Which countries are they, do you know?—A. France, Denmark and Holland, etc.

By Mr. Marquis:

Q. Those countries are mentioned?—A. No. It is put in this way, sir, the members can opt which one they want to elect.

By Mr. Pinard:

Q. Was any European country denied that right?—A. No, but I believe Switzerland would not have the right.

By Mr. Marquis:

Q. I suppose those countries are known by the organization?—A. Yes, the International Monetary Fund knows which countries have that right. The countries themselves know and they would choose accordingly.

Q. I presume Canada has a list of those countries?—A. We have a pretty good idea who they are.

The CHAIRMAN: I wonder if you would care to deal with Mr. Isnor's question?

By Mr. Benidickson:

Q. Under Bretton Woods agreement, there are restrictions on the devaluation we may carry out internally without the consent of the fund. Suppose we broke our obligation under the Bretton Woods agreement, would there then be some clause under the Geneva Agreement which would restrict our ability to devalue?—A. Yes. Under the Monetary Fund, as you say, there are certain limitations on our freedom of unilateral devaluation. Within 10 per cent we do not have to ask permission, but beyond 10 per cent we have to have the approval of the Monetary Fund. This Geneva Agreement does not impose any obligations on us directly with regard to exchange rates but it does contain a clause which says that countries should be members of both institutions.

Q. What institutions?—A. The fund and the trade organization. If a country is not a member of the International Monetary Fund, it must sign a special exchange agreement with the ITO. In the exchange agreement, the matter dealt with will be similar to those contained in the International Monetary Fund.

By Mr. Hackett:

Q. Was France bound by both organizations?—A. Yes.

Q. What happened when France devalued?—A. There were some disagreements, but I believe they are trying to compose them now, sir. I wish to deal now with one or two of the other major changes made in the Geneva Agreement. There is a section in the Geneva Agreement dealing with customs unions. It is contained in Article 24. I do not want to get into the technicalities, but you will find it in Article 24, page 58, territorial obligations and customs unions.

In effect, this Geneva Agreement states that a customs union arrangement is an exception to the most favoured nation rule. The most favoured nation rule requires all countries to accord similar tariff treatment to all the others who signed this agreement. In other words, you cannot apply one set of tariff rates to one of the members and another set of rates to another member. You must apply the same tariff treatment to all the members; that is the most favoured nation rule. This clause says customs unions are an exception to that rule. In other words, if two countries enter into a customs union the two countries entering into this union may remove all tariffs between them. Indeed, that must be so in order to make a customs union, but they do not have to accord this removal of tariffs to other countries.

By Mr. Timmins:

Q. That would be like the Benelux countries?—A. Benelux is an example. Those countries do not apply duties between themselves.

By Mr. Michaud:

Q. None whatever?—A. None whatever. There is complete free trade between those countries. They have a common tariff as against the rest of the world; both countries have the same tariff as against the rest of the world. This type of arrangement is permitted under this clause. Simply because Belgium has given the Netherlands free treatment in tariff under this clause, she does not have to give that free treatment to all the others.

By Mr. Pinard:

Q. Is that not a perfect case of discrimination?—A. That is the ultimate in discrimination, in that sense. On the other hand, these countries have adopted a common tariff; both countries have a common tariff against all other countries.

By Mr. Marquis:

Q. Is it the same tariff?—A. It is the same tariff.

By the Chairman:

Q. In order for article 24 to apply and for the exception to apply, there must be a complete customs union?—A. That is right, it must be a bona fide customs union.

By Mr. Irvine:

Q. They would be as one country, in that case?—A. They would be as one country as far as tariffs are concerned.

By Mr. MacNaught:

Q. Would this agreement prevent us from entering into a customs union with the United States?—A. No, this clause would permit it. This clause allows that to be done if that is what is desired. The Benelux union is permitted under this clause.

By Mr. Pinard:

Q. Could a country have a union with one country and still be part of a customs union with another country? For instance, could Holland have a

customs union with France and still remain in the Benelux union?—A. They would all have to be in the one. You could have France, Belgium and the Netherlands in one union.

Q. But could Holland have a customs union with France and still have a customs union with Belgium and the Netherlands?—A. A different one?

Q. Yes.—A. It could not be done because there has to be a common tariff.

The CHAIRMAN: If it is an absolute union, that answers your question.

By Mr. Lesage:

Q. What about Canada having a customs union with the United States and, at the same time, keeping the preferential tariffs with Britain?—A. That could not be allowed under a customs union. Customs union means countries entering into an arrangement have the same tariff.

Q. So we could not get into a customs union with the United States and at the same time keep our preferential tariff with the United Kingdom?—A. No, that is not a customs union.

By Mr. Argue:

Q. Is there a customs union between Russia and any other country?—A. I do not know, sir.

By Mr. Jackman:

Q. What would you call a customs union between Canada and the United States, which is not permissible under the terminology? Suppose you had what was tantamount to a customs union with the United States and still did not want to give up the preference?—A. That would not be a customs union.

Q. What would you call it?—A. It would be a violation of this agreement.

By Mr. Lesage:

Q. We could have a customs union with the United States if we both had the same tariff with the other states?—A. The only way you can have a customs union with any country is if you have the same tariff for both countries. If you have a customs union with the United States you would have to have the same tariff in Canada against third countries as in the United States.

Q. Do you mean you would have to have the same tariff vis-a-vis the rest of the world?—A. The rest of the world.

By Mr. Marquis:

Q. And between the countries?—A. The definition of a customs union is this: two countries enter an agreement in which they removed all duties between themselves.

Q. They cannot have any tariff?—A. Not between themselves; but they have a common tariff against the rest of the world. That is a customs union.

By Mr. Pinard:

Q. Tell us the differences and exceptions. Is there any difference between this agreement and the institution that existed before the war?—A. Before the war traditionally as a matter of custom—of traditional acceptance—customs unions were always regarded as exceptions to the M.F.N. by tradition. Notwithstanding, it was never embodied formally in a document. It was an exception before the war by common acceptance. Now, it is formally recognized in this agreement that a customs union is a proper exception to the rule.

By Mr. Marquis:

Q. Before the first war, when they had a customs union like that they could have a tariff with another country?—A. That is right. There was no formal

undertaking requiring countries to have the same tariff; but in practice other countries would not recognize unions unless they were really customs unions; so in practice nothing much has been changed.

By Mr. Picard:

Q. Was there not a customs union between the former German states?—A. That is right.

Q. And was that not the aim of the Anschluss between Germany and Austria?—A. That is right. There were customs unions before the war and they were recognized, but they had to be real customs unions.

Mr. HACKETT: They were a conquest.

The WITNESS: Some of them were based on conquest and pressure, but the present Benelux union is a freewilled development.

By Mr. Picard:

Q. It is a departure from the procedure carried on?—A. The reason I raised this was—

Mr. JACKMAN: May I ask what I think is a practical question? If Canada and the States were to abolish all tariffs they could not come under this agreement and have Canada still maintain the empire preference?

The WITNESS: Not under the agreement as it now stands.

Mr. PICARD: Unless the United States extended it?

The WITNESS: It would be very unlikely. We would have to have the same tariffs.

By Mr. Jackman:

Q. We might import goods from Britain under the preference, if you like, and re-export them at the same time. They would have identification marks and it might be necessary, despite the free trade areas, to have customs officers at the border to prevent such a thing. Was this not discussed at Geneva or Havana—the possibility of a free trade area between the United States and Canada?—A. No, not between the United States and Canada.

Q. I understand if we ratify this agreement we cannot bring that about. Is it likely the states would enter into empire preferences?—A. I want to get to the point Mr. Jackman has raised, which is precisely the point I was coming to. Under the Geneva agreement as it now stands the only exception was a pure customs union. At Havana some countries—particularly some of the European countries—were interested in widening the concept of a customs union and making it less rigid and less academic in form. As you know, there has been much discussion in Europe in the last few months about customs unions, and indeed there are very active discussions going on at the moment. There is a discussion going on about a customs union for the whole of western Europe, and inside the general discussion there are a lot of bilateral discussions going on. At the moment the most important one is between France and Italy. They are actively exploring a customs union between those two countries.

Now, in connection with this discussion these countries are anxious to get rules put into this agreement which would make it practicable for them to work out such arrangements and therefore have asked for an amendment to this provision, giving it a little wider scope than it does at the present time: and so at Havana they included a provision which stated that a free trade area should also be an exception to the M.F.N. rule.

What is a free trade area? A free trade area, according to the definition as it is here, is an area in which the two countries agree to remove all duties between them but each country retains its own tariff against other countries.

By Mr. McNaught:

Q. That would be most impracticable, would it not?—A. Some of them thought it would not.

Q. It must be most impracticable because how would you prevent the goods going from one country or coming in under one tariff into the other country?—A. Third country goods would be examined at the border and would be assessed at the duties against the third country. You would have to have identification.

By Mr. Marquis:

Q. What is the difference with a customs union?—A. With a customs union the two countries entering into the arrangement must adopt the same tariff. Under the free trade area they can maintain their own tariffs, separate tariffs, against third parties.

The CHAIRMAN: So that only in the free trade area there would be free trade only with respect to domestic production; there would not be free trade with respect—

The WITNESS: To third country goods.

Mr. HACKETT: They would have to keep by their customs area.

The WITNESS: They would have to have a system for identifying third country goods and they would levy duties against the third country goods; but as to the produce of the two countries they would move freely across the border.

By Mr. Marquis:

Q. In the customs union they would allow the merchandise of other countries to pass without the tariff?—A. Yes, but when they come in from third countries they have to pay a common duty which concerns the whole area.

By Mr. Fulton:

Q. What was the result of this move?—A. This proposal by the French and some other countries was accepted.

Q. Was accepted?—A. Was accepted as an exception from the M.F.N. rule.

Q. Will it be incorporated in whatever document comes out at Havana supplementing this one?—A. Yes. As a matter of fact, these changes in this clause are made in this agreement. In other words, the customs union clause in the Geneva Agreement will be replaced by this clause that was developed at Havana which permits the establishment of free trade areas.

By Mr. Pinard:

Q. To apply to all nations?—A. It will be equally accessible to all countries.

By Mr. Lesage:

Q. To come back to my question of a few moments ago if we had a free area in Canada and the United States we could still keep that?—A. Under a free trade arrangement each country could keep its own tariffs.

Q. Whatever preference there exists?—A. That is right.

By Mr. Isnor:

Q. Could we export fish from Canada to the United States or import it from the United States to Canada and process it and ship it out?—A. To where, to any other country?

Q. Yes. —A. Oh, sure.

By Mr. MacNaught:

Q. You gave us an example of a customs union, the Benelux countries. There is no example of a free trade area?—A. There is no example at the present time of a free trade area but I think some of the European countries are exploring the idea.

By Mr. Isnor:

Q. Would you say the Hamburg free port was an example of the same principle?—A. No, a free port is a different thing. That has been a well established situation.

Q. I know what a free port is. I was wondering if a free area would be on the same principle.—A. Not exactly, no. A free trade area is very simply an arrangement whereby two countries remove all duties between those two countries but retain their usual tariffs against third countries. That is what it is in essence, an under the Havana amendment that sort of arrangement will be permitted in the future and will be regarded as an exception to the M.F.N. rule.

By Mr. Timmins:

Q. That might very well result in four or five countries of Europe getting together?—A. That is right.

Q. Under a free trade arrangement?—A. Perhaps. I believe some of the European countries are exploring that at the moment.

By Mr. Pinard:

Q. You mentioned France and Italy?—A. Yes.

By Mr. Fulton:

Q. Can you tell us who else was interested in that? For instance, were the Scandinavian countries interested in that proposal?—A. No, the Arab states were. Both the French and the Arab states were interested in this proposal, and they were able to convince the others it should be allowed and therefore that amendment is being made in the Geneva document.

By Mr. Isnor:

Q. It would be more workable there than in a country like the United States, would it not?—A. Of course, in the case of the Arab states they are all countries that are industrially under-developed. Many of them are very small countries, and it is a very simple business in that case.

By Mr. MacNaught:

Q. The same would apply to the Scandinavian countries?—A. Norway and Sweden are not the same economically, you know. Sweden is a highly industrialized country whereas Norway specializes in shipping, fishing and lumbering. They are not closely comparable.

By Mr. Fraser:

Q. You said in this union that the third country goods that came in would not be allowed into the other country without examination?—A. Yes.

Q. But if that country should take in say parts of machines and go ahead and make them up into complete machines then they could ship out the complete machines into other countries, could they not?—A. That depends on the definition. There may be a content clause put in providing that the content must reach a certain figure.

Q. That is one way they could overcome that?—A. Yes.

By Mr. Argue:

Q. Are barter arrangements allowed?—A. It depends under what conditions. During the transitional period certain types of barter arrangements are allowed.

Q. For instance, Canada could trade so many bushels of wheat for so many yards of textiles with Britain, for instance?—A. Under certain conditions. In other words, if it were necessary to get a scarce commodity by that device that would be permitted, but it is not permitted as a general rule. There are certain exceptions for the transitional period.

I just want to finish up now the effect of the Havana Agreement on this Geneva Agreement, and there is one more amendment that was made which is of some importance. In the Geneva Agreement no country other than the seventeen which signed at Geneva could be admitted into this club unless all of the seventeen agreed unanimously that it should be admitted.

The CHAIRMAN: Article?

The WITNESS: That is article 33, on page 68. No country could join this club, if I may use that term, unless all the members agreed. All the countries have to agree and make proper concessions. It is one of those very exclusive clubs that no new member can be allowed into unless all of the seventeen agreed that the new applicant should be allowed in. That is the way the Geneva Agreement read. Now, at Havana, several of the members felt that was pretty stiff and they agreed to modify that to a two-thirds majority, so that if two-thirds of the existing members agree new members could come in, even though someone complained that they did not think the applicant was a suitable applicant. That was the other major amendment. But, of course, it is understood that any new member has to pay his dues, like in any club. He has to make tariff concessions.

By Mr. Marquis:

Q. Did the other countries which signed the agreement accept that rule?—A. That is the rule. The seventeen countries at Geneva agreed among themselves that all of the seventeen were eligible, but this is directed against any new members. Of course, the countries at Havana, and there were some 50 countries there, thought that was pretty stiff, that any one of the original seventeen members could blackmail any other applicant.

By Mr. Fulton:

Q. Was the result of lowering that such that new members came in?—A. It would help. They said, we think the unanimity rule too stiff, but if you make it two-thirds we would come along.

Q. It immediately brought new members in?—A. No, because at Havana there was no negotiation of tariffs. In order to get into this club you have to negotiate tariffs.

By Mr. Lesage:

Q. That is a question I was going to ask, when will they come in?—A. Within two years after the charter comes into force each country must have carried out its obligations to negotiate tariffs.

Q. With how many countries?—A. There were fifty.

Q. With all the others?—A. Yes, but we do not know how many countries will ratify the charter. Suppose thirty countries ratify it and bring it into effect, each of the thirty countries which is not one of the seventeen at Geneva undertakes the obligation to negotiate its tariffs within two years.

Mr. MARQUIS: Only seventeen have ratified?

The WITNESS: The others have to negotiate within two years. I believe, Mr. Chairman, that covers the main changes made at Havana, but I might say at this point the members will want to get the complete charter as it was produced at Havana. As soon as we obtain copies we will see that the members get the final text. The charter has in it a number of things which are not in the agreement at all. The agreement relates purely to commercial policy matters, purely to tariffs, and trade questions. The Havana Charter has a chapter on commodity agreements. The rules relating to commodity agreements are not in the Geneva Agreement. The Havana Charter also has a chapter on international cartels which is called restrictive business practices.

Mr. IRVINE: Are we accepting the Havana Charter or the Geneva Charter?

The WITNESS: We are only considering the Geneva Agreement. I do not know what the intention of the government is. Later it may wish to have the Havana Charter submitted for approval.

Mr. ISNOR: Before you make your report, Mr. Chairman, is it your desire to go through this clause by clause?

The CHAIRMAN: I am in the hands of the committee but it is my opinion, with respect to these heavy assignments, that it is just as well for the committee to have a free hand for a few meetings before deciding what their final commitment shall be.

Mr. FULTON: May I make a suggestion? At a meeting to be held quite soon, I suggest that Mr. Deutsch or Mr. MacKinnon explain the way in which the International Trade Organization functions, who runs it, and how the governing body is set up? What is the constitution of the central body? I do not find it in the agreement, but there is constant reference to the contracting organization and the contracting parties. I take it that they mean in one case the international Trade Organization which would appear to be given certain powers. For instance the contracting organization must approve what each contracting party wishes to do. I am wondering just what the constitution is?

The WITNESS: That matter is a large subject in itself and it can be gone into later.

Mr. PINARD: Is there any publication which gives that information?

The WITNESS: I should say that the organization provided for is different from the charter. The agreement has its own organization and the charter has its own organization.

The CHAIRMAN: Before we adjourn we should reach an agreement on the matter of printing which was left in abeyance at the opening of the meeting and we should also decide on the time at which the next meeting will take place. Would Thursday night at the same hour be satisfactory to the committee?

Agreed.

Mimeographed copies are now being distributed of the changes which were made at Havana and which have been discussed tonight.

Now with respect to printing the members of the committee have had a chance to think this matter over.

Mr. FRASER: Mr. Chairman, do you not think many of the manufacturers and exporters would like to have this information? I think we should have quite a few copies if we do print them.

Mr. TIMMINS: I think we should have 2,000 copies.

The CHAIRMAN: Mr. Timmins moves that we print 2,000 copies of today's proceedings to which will be attached as Appendix B compilation of the principal tariff concessions affecting Canadian products. (See Appendix B). There will also be a statement showing the British preferential and most favoured nation rates, effective July 1, 1949. Is that agreed? (See Appendix C).

Agreed.

APPENDIX A

MULTILATERAL TRADE AGREEMENT BETWEEN SEVENTEEN COUNTRIES HAS WIDE APPLICATION HERE

Press release, issued on November 17, 1947, provides comprehensive introduction, with summary of concessions secured by Canada and granted by this Dominion to other countries.

PRESS RELEASE

On Wednesday, October 29, it was announced by the Prime Minister that Canada had successfully concluded at Geneva, Switzerland, tariff and trade negotiations with a number of countries and that on the following day there would be signed on behalf of Canada a multilateral General Agreement on Tariffs and Trade, together with a Protocol of Provisional Application. On October 30 those instruments were duly signed by L. D. Wilgress, Canadian Minister to Switzerland.

The Prime Minister's statement indicated those countries with which Canada had completed negotiations, viz.: United States of America, Belgium-Luxembourg and the Netherlands (comprising the new customs union of "Benelux"), Brazil, Chile, China, Cuba, Czechoslovakia, France, Lebanon-Syria, and Norway, as well as the United Kingdom, the Union of South Africa, Ceylon, India, and Pakistan.

The General Agreement on Tariffs and Trade and the Protocol of Provisional Application, which together constitute the Final Act of the proceedings of the Preparatory Committee for the World Conference on Trade and Employment, represent the culmination of intensive tariff negotiations which began in Geneva last May. The Draft Charter for an International Trade Organization, published earlier, signifies the fruits of seven months of effort by the members of the Preparatory Committee to formulate a code of international conduct in respect of commercial policy, commodity policy, restrictive business practices, employment, and development. The Draft Charter will go forward for adoption to the World Conference to be convened at Havana on November 21.

The General Agreement on Tariffs and Trade, which includes the schedules of tariff concessions, will be brought into force provisionally on January 1, 1948, by the countries which have signed the Protocol of Provisional Application. This Protocol has been signed by Australia, Belgium, Canada, France, Luxembourg, Netherlands, United Kingdom, and the United States. It remains open to the other countries which have participated in the Geneva negotiations to sign the Protocol at a later date.

As formulated at Geneva, the General Agreement on Tariffs and Trade is a substantive international agreement—independent of but complementary to the Draft Charter—which can, if necessary stand by itself. It comes into force, provisionally, by itself, and is so framed as to permit its continuance in operation in a definitive sense even though the Havana Conference should fail to produce an acceptable Charter. It contains such provisions regarding commercial policy as have for years been standard in most bilateral trade agreements, as well as many of the provisions of the Draft Charter which were approved by the negotiating countries at Geneva as essential and desirable provisions of a multilateral trade agreement.

Reference to the text of the General Agreement on Tariffs and Trade will reveal that various Parts and Articles thereof formulate principles and rules fundamental to the application and enforcement of what is in effect an international code. Those relative to Commercial Policy in the broadest sense of the phrase deal with such matters as Most-Favoured-Nation Treatment, Preferences, Customs Duties and other duties and charges, National Treatment on Internal Taxation and Regulation, Freedom of Transit, Anti-Dumping and Countervailing Duties, Valuation for Customs Purposes, Formalities connected with Importation and Exportation of Goods, Marks of Origin, Publication and Administration of Trade Regulations, etc.

Interlocking closely with the more standard provisions respecting Commercial Policy above referred to, are those relevant portions of the Draft Charter on Quantitative Restrictions which have been embodied in the General Agreement. In general, quantitative restrictions are prohibited. There are, however, exceptions to this basic rule which are carefully defined, including exceptions which are permitted in respect of countries involved in balance of payments difficulties. The provisions regarding Non-Discriminatory Administration of Quantitative Restrictions and the Exceptions to the Rule of Non-Discrimination which are important features of the basic rules regarding the use of quantitative restrictions in any form, are carefully formulated and set forth in the General Agreement.

Other important Articles of the General Agreement relate to Exchange Arrangements, Export Subsidies, State-Trading Enterprises, Adjustments in Connection with Economic Development, Emergency Action on Imports of Particular Products, General and Security Exceptions, Consultation, Nullification or Impairment, Joint Action by the Contracting Parties, Entry into Force, Withholding or Withdrawing of Concessions, Modification of (Tariff) Schedules, etc.

The General Agreement includes a provision entitled "Relation of this Agreement to the Charter for an International Trade Organization." Under this provision, the signatories to the General Agreement undertake that, "pending their acceptance of such a Charter in accordance with their constitutional procedures," they will "observe to the fullest extent of their executive authority the general principles of the *draft* Charter submitted to the (Havana) Conference by the Preparatory Committee." It is further provided that on the coming into force of the Charter after the Havana Conference, certain parts and sections of the General Agreement shall be superseded by the corresponding provisions of the Charter. However, any contracting party to the General Agreement may lodge an objection to any provision of the Agreement being so suspended or superseded, in which case all the contracting parties shall confer to consider the objection in order to agree whether the provisions of the Charter to which objection has been lodged, on the corresponding provisions of the Agreement in its existing form or any amended form, shall apply. Any contracting party may on or after January 1, 1951, withdraw from the General Agreement upon the expiration of six months prior notification of such intention.

Under the terms of the Protocol of Provisional Applications, Canada will bring into force on January 1, 1948, Parts I and III of the General Agreement—that is (1) those Articles thereof which provide for Most-Favoured-Nation Treatment in administration of the text and the Schedule of Tariff Concessions; (2) the Schedule of Tariff Concessions (Schedule V); and (3) the general Articles relative to Acceptance, Entry into Force, Withdrawal, etc. Also on January 1, 1948, Canada will bring provisionally into force Part II of the General Agreement (i.e.—all other provisions thereof) "to the fullest extent not inconsistent with existing legislation."

An illustration of the manner in which this safeguarding proviso will apply is afforded in the case of oleomargarine: this is at present prohibited from importation by statute, which prohibition will continue to apply unless and until dealt with by Parliament.

Preferences, no less than rates of duty, played a vital part in the negotiations at Geneva, and the General Agreement sets forth the basic principles agreed upon as governing in future, and during the life of the new Agreement, the manner in which and the extent to which preferences may be a feature of bilateral agreements among the units of any preferential area. Very briefly, these are that no new preferences may be created, that no existing preferences may be enlarged, and that such preferences as remain after the conclusion of the Geneva negotiations shall be negotiable—that is, they may be reduced or narrowed by negotiations with foreign countries, in return for the granting by such negotiating foreign countries of concessions or benefits to the giver or the holder, or both, on such preferences.

Just as preferences remaining “after Geneva” are negotiable (i.e.—subject to elimination or impairment only by the process of negotiation), so were preferences “pre-Geneva” negotiable during the past summer. In many instances, the foreign country negotiating with Canada expressed chief interest in a reduction of the rate of duty; in others, the “margin of preference,” as distinct from the favoured-nation rate, was the desideratum; in not a few negotiations concerned both the rate of duty and the preference. Naturally, Canada was involved, preference-wise, on two fronts: demands by foreign countries upon other Commonwealth areas for elimination or reduction of preferences enjoyed by Canada in those areas; and demands by foreign countries for elimination or narrowing (by reduction of the favoured-nation rate) of preference enjoyed in the Canadian tariff by other Commonwealth countries. From the outset, Canada strongly opposed the narrowing of preferential margins by the device of raising preferential rates and it will be seen from a study of the Schedule that, in so far as concerns the Canadian tariff, there is only a single instance of the raising or imposing of a duty under the British Preferential Tariff; in all other instances, the preferential margin, if narrowed at all, has been narrowed by the reduction of the rate applicable to favoured-nations. This principle relative to her own tariff, Canada was content to have apply equally in respect of the preferences enjoyed by her products in various Commonwealth countries and in order to do her part in making it possible for the latter to reach agreement with other negotiating nations, the Canadian Government assented in several instances to the elimination or the reduction of those preferential margins to which she had been entitled and to which her producers had become accustomed. The extent to which such preferences in other Commonwealth areas have been modified under the new Agreement is fully set forth in later sections of this statement as are also the number and magnitude of the concessions secured by Canada in many countries of the world.

Although more than one hundred separate and distinct agreements respecting tariffs and preferences were worked out at Geneva, the results of *all* those appear as one comprehensive Schedule (numbered Schedules I to XX, inclusive) to the General Agreement. The Schedule No. V, consolidates the concessions granted by Canada to all the countries with which negotiations were successfully concluded; therefore, the rates of customs duty set forth therein are generalized among the participating nations or countries. As was the case with many of the countries, parties to preferential tariff arrangements, the Canadian Schedule (No. V) is in two parts: Part I comprises all items of the Canadian tariff negotiated with any or all countries, and the rates set forth therein will apply to all “members of the Club” not entitled to lower or special preferential rates; Part II comprises those tariff items which

were the subject of negotiation with Commonwealth countries, and the rates set forth therein will apply to those areas of the Commonwealth entitled to the benefits of the British Preferential Tariff. No item appears in Part II, bearing a preferential rate which does not appear also in Part I, bearing the rate applicable to those other countries parties to the Geneva negotiations. The rates of duty specified in Part I are designated as the duties under the "Most-Favoured-Nation-Tariff" and (subject to such revision of the Draft Charter as may be made at Havana) may be applied provisionally to those countries, not participants at Geneva, with which Canada has in the past exchanged most-favoured-nation treatment.

The term of the General Agreement is the standard one of three years (i.e.—to January 1, 1951) but the Agreement contains the usual provision for continuance in force thereafter, subject to six months' notice of termination.

Study of the terms of the new Agreement and of the Schedules thereto will reveal that it is the most far-reaching and comprehensive agreement of its kind in Canadian history. Further, that the Canadian portion of the multilateral instrument is a vital part of what is probably the most comprehensive multilateral trade agreement ever attempted. From the Canadian point of view, the achievement of a multilateral understanding among so many countries, representing as they do such a large percentage of the world trade, is particularly gratifying, not merely because of the potentialities it offers in respect of enlarged markets abroad for Canadian exports but no less because of the fact, that from the inception of the idea of a multilateral effort to reduce barriers to trade throughout the world as a foundation for world peace, the Canadian Government and the Canadian public have shown intense interest in the objective and have consistently assisted in its attainment. Representatives of Canada joined in the earliest informal and exploratory discussions both at London and Washington, in 1943, 1944, and 1945. A Canadian delegation participated in the first session of the Preparatory Committee at London in October and November of 1946; and again a Canadian delegation has been an active participant at Geneva during the past seven or eight months. In all these conferences, the outstanding importance of Canada's place in world trade has been recognized and is evidenced by the fact that Schedule V to the General Agreement is one of the largest and most comprehensive in the series of twenty such marking the culmination of the negotiations.

Needless to say, the conclusion by Canada of mutually-satisfactory negotiations with other countries would not have been easy—indeed, might have been impossible—had it not been for the co-operation extended by those other countries of the Commonwealth with which she has trade agreements, notably the United Kingdom, Australia, South Africa, New Zealand, and the West Indies. Throughout the long and complicated series of negotiations, there was on the part of all the Commonwealth countries a readiness to understand and appreciate one another's problems and a joint determination to assist one another in arriving at agreements which all could recommend as being in the interests of each and of the world at large.

One result of this co-operative attitude is that there has been concluded on Canada's initiative a revision of the Canada-United Kingdom Trade Agreement (1937). The exchange of letters in this regard is being made public with this announcement. Under this exchange of letters each country undertakes, with respect to goods covered by the relevant Schedules of the multilateral Agreement (Schedules V and XIX), to continue to accord to the products of the other treatment no less favourable in general than has been accorded under the existing Agreement of 1937, but in which also each government recognizes the right of the other to reduce or eliminate preferences. In taking such initiative, the Canadian government has had in mind the historic Cana-

dian attitude respecting preferences, namely, that these concessions, freely given, are not matters of rigid contractual right of obligation. It is the intention of the Canadian government to propose to the other Commonwealth governments concerned agreements with them similar to that now concluded between this country and the United Kingdom.

In studying the Schedule attributed by number to countries other than Canada—that is, those which indicate the tariff treatment to be granted to Canadian products entering such countries—one must realize that they are in terms of the tariffs of those countries just as Schedule V is in terms of the Canadian tariff. With many of these foreign countries, Canada had not hitherto negotiated tariff rates but had merely exchanged most-favoured-nation treatment, with the consequence that the form and appearance of many of the Schedules will be unfamiliar to Canadian eyes. While inquiries in detail in this regard should be submitted to the Foreign Tariffs Division of the Department of Trade and Commerce, Ottawa, attention might here be drawn to certain basic considerations which should be borne in mind in analysing the contents of each country-schedule:

(1) In the case of concessions granted by the United States (Schedule XX), the rate of duty shown in the third column does not in many instances tell the entire story of the results of Canada's continuing efforts to secure access to that great market. Very frequently the rate indicated as the one now to apply is only one-half or even one-quarter of the duty which applied in, say, 1930. An example is afforded by the item re *Turnips*: prior to 1935, the rate of duty was 25 cts. per 100 pounds; in the 1935 Agreement, Canada secured a 50 per cent reduction in rate, to $12\frac{1}{2}$ cts.; in the 1938 Agreement, the $12\frac{1}{2}$ ct. rate was bound; and in this new Agreement there has been secured a second reduction by 50 per cent, namely,—a rate of $6\frac{1}{4}$ cents per 100 pounds. Successive reductions of which this is an illustration do not appear in the Schedule now published but in most important instances detailed explanations in later sections of this statement indicate where the new and lowest rate is the result of one, two or more reductions by agreement.

(2) In not a few instances, Canada stands to benefit materially, although indirectly, by virtue of the multilateral character of the negotiations and the generalization of the benefits. A good illustration is the concession granted by the United States on *fresh beef and veal*, the rate on which is reduced from 6 cts. to 3 cts. per lb. Here the negotiating country, as principal supplier,—or potential principal supplier—was Australia, but the concession extends to all the "members of the club" and Canada may expect to derive substantial benefits from this reduction in duty.

(3) The Schedules which include the concessions granted to Canada by Benelux (Schedule II), France (Schedule XI) or Norway (Schedule XIV), for example, indicate the maximum import duty to apply in future on imports of *wheat*. Only by reference to the explanations given in the appropriate section of this statement, however, can one understand and appreciate the achievement represented by such scheduled rates. The attainment of the tariff treatment specified came only after long and persistent effort on the part of Canada's negotiators to arrive at a workable formula by which to measure and restrict the net protection afforded by state-monopolies to their own producers of bread grains.

(4) Under the provisions of the Trade Agreements Act, the power of the President of the United States to negotiate changes in the United States is subject to definite limitations. In particular, he is expressly forbidden to remove any article from the dutiable list to the free list, or from the free to the dutiable list. In addition, he is not permitted to take any action which would have the effect of reducing any duty by more than 50 per cent of the

rate applicable at the beginning of 1945. The United States negotiators were limited also to a list of items on which they were specifically authorized to negotiate. While this so-called "statutory list" was very extensive, some important items were excluded from it and therefore could not be discussed at Geneva. One of the principal reasons for excluding such items from the list was the "principal supplier" rule, which although not prescribed by any law or international agreement, was for obvious reasons followed in practice to a very large extent by all the participating countries. Under the principal-supplier rule, each country tended to negotiate prospective tariff concessions on any particular item not with any minor producer but with the country mainly interested in supplying that item, which would also presumably be the country most likely to offer concessions in exchange. When the principal supplier of any article was for any reason not among the countries represented at Geneva (although it may be represented in future trade conferences), there was a tendency to postpone the discussion of the tariff on that article until the principal supplier could be present to take part in the discussion and to make offers of reciprocal concessions. Thus, in the absence of such countries as Argentina, Sweden, Denmark, Switzerland, Italy, and Turkey (to mention only a few countries at random), there was a general inclination to postpone till a future occasion, the negotiation of tariff reductions on items of which such countries have been or are likely to be the principal suppliers.

Ancillary to the General Agreement are certain exchanges of notes and letters, additional to the one elsewhere referred to respecting a revision of the Canada-United Kingdom Trade Agreement of 1937.

One of these, entitled "Agreement between Canada and the United States of America Supplementary to the General Agreement on Tariffs and Trade," is included in today's release. It provides for the suspension rather than the termination of the Canada-United States Trade Agreement of 1938, the instruments exchanged making clear that the 1938 Agreement shall be inoperative for such time as Canada and the United States are both contracting parties to the (new) General Agreement on Tariffs and Trade. The second letter (also published today) records the intention of the Government of Canada to invite Parliament at its forthcoming session to amend Section 5 of the Customs Tariff to provide that the discount of 10 per cent therein provided for in respect of goods imported under the British Preferential Tariff shall not apply in respect of imports on which the British Preferential rate is the same as the Most-Favoured-Nation rate.

CONCESSIONS SECURED BY CANADA

Concessions secured for Canadian products in the various countries with which negotiations were concluded cover an extremely wide range and will be of interest to all parts of the Dominion. Since it is necessary in this portion of the statement to deal with commodities (or groups of commodities) as well as with countries, it may be in the interest of clarity and brevity to begin by summarizing the principal concessions—in terms of chief export commodities—granted by various countries to Canada.

PRINCIPAL CONCESSIONS

Wheat: Maximum reduction in the United States duty and substantial reductions in the customs duty and/or "monopoly charges" in France, Belgium and Luxembourg, Netherlands, Cuba and Norway, with binding of free entry or existing duty in China and Brazil.

Coarse grains: Maximum reductions in the United States duties on oats, barley, rye, bran, shorts, middlings, grain hulls, screenings and scalplings.

Wheat flour: Maximum reduction in United States duty and reduction in duty and/or monopoly tax in Benelux and Cuba, as well as reduction in duties in French colonial possessions.

Seeds: Maximum reductions in United States duties on alfalfa, red clover, alsike clover, sweet clover, and timothy, with reductions on other grass and forage seeds. Binding in Benelux of free entry for clover and forage crop seeds; reduction in Czechoslovakia on lucerne and grass seeds; and binding in France of free entry of clover and other forage seeds.

Seed Potatoes: Continuance in United States of existing quota rate on certified seed potatoes with increase in quota from 1,500,000 bushels to 2,500,000 bushels.

Free entry for seed potatoes bound in Brazil and in Cuba on seasonal basis.

Turnips: Maximum reduction in United States duty.

Spirituuous Liquors: Substantial reduction in United States duties on whisky and gin.

Apples: Reduction in duties in United States on fresh apples and maximum reduction on dried and canned apples. Reductions by Benelux on fresh and dried apples; by France on fresh and dried apples and apple juice; and by Norway on fresh apples.

Berries: Reductions in United States duties on blueberries, both frozen and canned, as well as on other frozen berries.

Cattle: Binding of the United States rate of $1\frac{1}{2}$ cents per lb. on cattle weighing 700 lbs. or more each together with an enlargement of the quota from 225,000 head to 400,000 head; and binding of the rate of $1\frac{1}{2}$ cents per lb. on calves with an enlargement of the quota from 100,000 head to 200,000 head.

Dairy Products, Eggs, Etc.: Maximum reduction in United States duties on live poultry of all kinds; on all dressed poultry other than turkeys; and on baby chicks, canned chicken and dead game birds.

Quota retained on fresh *cream* but quota rate reduced from 28.3 cts. per gallon to 20 cts. Quota retained on *whole milk*, but quota rate reduced from $3\frac{1}{4}$ cts. per gallon to 2 cts. Reductions in rates on skimmed milk and buttermilk, condensed milk (sweetened and unsweetened), whole milk dried, and skim milk and buttermilk, dried.

Butter: United States duty reduced from 14 cts. to 7 cts. per lb. on global quota of 50,000,000 pounds.

Reductions in duties in France on concentrated milk, butter and cheese.

Cheese: United States duty reduced on cheddar cheese.

Cod fillets: Continuance in the United States of the existing quota and quota rate but with a binding of the ex-quota rate of $2\frac{1}{2}$ cents per pound (not bound under the existing Agreement).

Other fisheries products: Maximum reductions in United States duties on fresh or frozen salmon and halibut; reductions in duties on other fresh fish, on smoked or kippered herring, on pickled salmon, and on cod, dry or green salted, pickled, etc.

Binding by Benelux of free entry of fish, fresh or chilled, salted, smoked or dried; reduction by France on canned salmon and canned lobster; reduction by Brazil on dry salted codfish and by Cuba on dried codfish; reductions by Czechoslovakia on salted herrings and preserved salmon; by India on canned fish; and by Norway on canned lobster, canned salmon and salted salmon.

Lumber: Maximum reductions in United States duty, as well as in I.R.C. tax, on sawn and dressed boards, planks, etc. of fir, hemlock, spruce, pine and

larch. Maximum reductions also in duties on red cedar plywood, veneers (other than of birch or maple, which are bound at 10 p.c.), and binding of free entry for wood pulp, poles, ties, staves, etc.

Binding by Benelux of free entry for logs, pulpwood and wood pulp and of low rates on veneer sheets and tongued and grooved wood; reductions in French duties on logs, pulpwood, veneer leaves, tongued and grooved wood, and wood pulp; and by India on Douglas fir timber.

Base metals: Reduction by one-third of United States duty on aluminum metal and by 50 per cent of the duties on aluminum plates, sheet, scrap, etc. Maximum reduction on magnesium, tantalum, cadmium, nickel in all forms except tubes and tubing, and zinc sheets, scrap and dross, together with binding of free entry and maximum reduction in I.R.C. tax on all copper.

Binding by Benelux of free entry for lead and zinc ores; copper in pigs, ingots, etc.; nickel in ingots, plates, etc.; aluminum in ingots, plates, etc.; and zinc ingots.

Binding by France of free entry for important ores and reductions in duty on various forms of copper, nickel, aluminum and zinc and free entry for lead ingots.

Binding by Czechoslovakia and Norway of free entry for certain forms of copper, nickel, aluminum, and cadmium.

Non-metallic minerals: Numerous reductions in various countries in duties on mica, talc, and corundum, with continuance of free entry of asbestos in United States, Benelux, and Czechoslovakia, and of free entry in United States of coal and coke, artificial abrasives (crude), calcium cyanide, gypsum, stone, and sand (including nepheline syenite).

Chemicals: Maximum reductions in United States duties on acetic anhydride, vinyl acetate and synthetic resins, selenium dioxide and tellurium compounds, aluminum hydroxide, ammonium nitrate, calcium carbide, acetylene and other blacks, and salt, with reductions in duties on acetic acid and crude barytes.

Manufactured Goods: Reductions in United States duties on electric stoves and many other appliances employing an electric element; aircraft and parts, pleasure craft, reciprocating locomotives, many articles and wares of metal, paint-brush handles, baby carriages, canoes and paddles, mop handles, skis, hockey sticks, toboggans, and equipment for exercise or play; pipe organs and parts, rubber substitutes and synthetic rubber. Continuance of free entry for agricultural implements.

Reductions or binding of free entry or low rates in one or several of Benelux, France, India, Norway, Brazil, Chile, China, Cuba, and Czechoslovakia on such goods as soaps, synthetic rubber, rubber belting, agricultural implements, lamps and lanterns, heating and cooking apparatus, insulators, ice skates, aircraft and parts, domestic refrigerators, rubber tires, sewing machines, electrodes and batteries, knitting-machine needles, bronze powder, and skis.

As regards the United States, it should be stated in general that the new Agreement preserves and continues for Canada practically all the advantages obtained in former trade agreements (including the binding of free entry of goods of the kinds which represented approximately two-thirds of all Canadian exports to the United States during 1939) and embodies new and often maximum concessions on a large proportion of the remainder.

General Products: Reductions in United States duties on maple syrup, maple sugar, honey, hay, straw, millet, dried peas, beef and veal, edible offal, lamb, mutton, wool, dried and frozen eggs, canned fruits, dried potatoes, potato starch, onions, various fresh vegetables, certain processed and canned vegetables, soups, juices and sauces, most vegetable seeds, tobacco, etc.

CONCESSIONS ON AGRICULTURAL PRODUCTS

Grain, Grain Products and Hay

United States: Under the Geneva Agreement concessions are obtained on 33 commodities in the grain, grain products and hay group. The maximum reduction of 50 per cent of the rate of duty in effect at the beginning of the year 1945 applies to 18 products, some reduction is obtained on 9 commodities and a binding by inclusion in the Schedule of new duties with no change in the rate, is provided for in the case of 6 products.

The duty on wheat is reduced from 42 cents a bushel to 21 cents a bushel and the quota provision which limited imports to 800,000 bushels annually is to be removed. There is no change in the Canadian most-favoured-nation tariff which remains at 12 cents per bushel. The duty on wheat flour is reduced from \$1.04 per 100 pounds to 52 cents per 100 pounds and the quota is to be removed. Prior to this agreement United States imports of wheat flour were limited to 4,000,000 pounds annually. The Canadian tariff remains unchanged at 50 cents per barrel. The United States import duty on barley is reduced from 15 cents a bushel to 7½ cents, on oats from 8 cents to 4 cents and on rye from 12 cents to 6 cents a bushel. Canada reciprocates by reducing import duties on coarse grains to the same level as the United States. Canada also reduces the duty on imported corn by 2 cents to 8 cents a bushel. The former rate was 10 cents a bushel.

The maximum reduction of 50 per cent is obtained also from the United States on semolina from \$1.04 to 52 cents per 100 pounds; pearl barley from 1 cent to ½ cent per pound; millet from 1 cent to ½ cent per pound; dried beans from 3 cents to 1½ cents per pound during the period May 1 to the following August 31; dried peas from 1¾ cents to 7⁄8 cent per pound; soya beans from 2 cents to 1 cent per pound; hay from \$2.50 to \$1.25 per ton; bran, shorts and middlings from 5 per cent to 2½ per cent; dried beet pulp from \$3.75 to \$1.90 per ton; malt sprouts and brewers' grains from \$2.50 to \$1.25 per ton; grain hulls from 5 cents to 2½ cents per 100 pounds; screenings and scalplings from 5 per cent to 2½ per cent *ad valorem*.

Some reduction in the United States tariff rate is received on wheat starch from 1½ cents to 1 cent per pound; barley malt from 40 cents to 30 cents per 100 pounds; rye flour from 45 cents to 30 cents per 100 pounds; rye malt from 35 cents to 30 cents per 100 pounds; buckwheat from 15 cents to 10 cents per 100 pounds; buckwheat flour from 30 cents to 20 cents per 100 pounds; split peas from 1¼ cents to 1 cent per pound; rape seed from free plus 2 cents revenue tax to free plus 1 cent per pound; straw from 75 cents to 50 cents per ton.

On the following grain and grain products there are no changes in the rates of duty which have been bound against increase by inclusion in the Schedule. The bound items include, wheat, unfit for human consumption at 5 per cent; wheat when manufactured into flour in the United States and the flour exported, exempt from duty; unhulled ground oats at 2½ cents per 100 pounds; rolled oats and oat meal at 10 per cent, but not less than 40 cents nor more than 80 cents per 100 pounds; cereal breakfast foods at 10 per cent; and mixed feeds at 5 per cent *ad valorem*.

Benelux: Although in past years wheat imported into the Netherlands, Belgium and Luxembourg has been admitted free of any customs duty, imports have been subject to a varying monopoly fee in the Netherlands and a corresponding duty in the Belgium-Luxembourg Economic Union. These restrictive devices had the same effect as a customs duty and due to their variability made trading in wheat and wheat flour with these countries uncertain and speculative.

Under their stabilization programs the domestic selling prices of wheat and flour were frequently maintained at levels considerably above the world prices for these products.

At Geneva, Canada negotiated a wheat agreement with Benelux which provides that imported wheat will continue to be admitted free of customs duty and the selling price of wheat in the Netherlands, Belgium and Luxembourg shall not exceed the average landed cost of imported wheat by more than 4 florins per 100 kilograms in the Netherlands and 66.08 francs per 100 kilograms in Belgium and Luxembourg. This maximum import duty corresponds to about 40 cents per bushel. In order to carry out their price stabilization program, in the event of a sharp decline in world wheat prices, the agreement provides that the selling price shall not be required to be reduced by more than 1 florin or 16.52 francs respectively or 10 per cent, whichever is the less, in any six-week period. This means that the domestic selling price of wheat in the Benelux countries must follow world prices down on a graduated scale and when prices move to lower levels by reason of the agreement they will have the intended effect of discouraging domestic production.

The agreement contains a mixing regulation which provides that not more than an average of 35 per cent per annum of domestic wheat or similar domestic products including potato flour, shall be required to be mixed with imported wheat in the production of flour.

The wheat flour agreement with the Netherlands provides for the free entry of a quantity not in excess of 50,000 metric tons per year and 3 per cent *ad valorem* for imports in excess of this quantity. Imports into Belgium and Luxembourg are subject to a duty of 3 per cent. The monopoly and corresponding charges on imported flour are limited to the equivalent of those imposed on wheat.

Belgian Congo: Continued free entry is obtained for wheat flour, oat meal and rolled oats.

Brazil: The tariff on wheat, wheat flour and barley malt is bound against increase.

China: The rate of duty on wheat and wheat flour is bound against increase in the tariff schedule at 15 per cent. The duty on malt is reduced from 15 per cent to 12½ per cent and the duty on oat meal continues at 25 per cent *ad valorem*.

Cuba: Substantial concessions are obtained from Cuba. The duty on wheat is reduced from 40 cents per 100 kilograms to 16 cents and on wheat flour the duty is reduced from \$1.30 to 83 cents per 100 kilograms. It is further provided that the United States preference on wheat flour shall not exceed 20 cents per 100 kilograms. The duty on rolled oats is bound at \$1.625 per 100 kilograms and the duty on brewers' malt is reduced from 30 cents to 25 cents per 100 kilograms.

France: Before the war France imposed an *ad valorem* duty of 50 per cent on imported wheat and in order to encourage increased home production France maintained the domestic price of wheat 100 to 200 per cent above the world price. In the agreement which Canada negotiated with France at Geneva important concessions in the rate of duty and the domestic selling price are obtained. France agrees to reduce the import duty to 30 per cent and further agrees that the selling price shall not exceed by more than 15 per cent the average landed cost duty-paid of imported wheat. The agreement provides further that in the event of wide fluctuations in world wheat prices the amount of the negotiated maximum protection may be adjusted subject to agreement between Canada and France.

Other concessions on grain and grain products obtained from France under the General Agreement are a reduction of the import duty on barley from 50 to 40 per cent, rolled oats 50 to 30 per cent and flax seed 12 to 8 per cent *ad valorem*.

French Colonies: Concessions obtained from the French Colonies on wheat flour are as follows: French West Africa from 7 per cent to 5 per cent; French Guiana from 3 per cent to free; Guadeloupe from 10 per cent to 5 per cent and in Martinique from 12 per cent to 8 per cent *ad valorem*.

Norway: Free entry of wheat, wheat flour, oats and barley is bound against change in the General Agreement. Canada negotiated a special wheat agreement with Norway which limits the price paid to producers of wheat. The Agreement provides that during the next three years the average purchase price of domestic wheat shall not exceed by more than 30 per cent the average price paid for imported wheat, c.i.f. Norwegian ports, during the same period.

LIVESTOCK AND LIVESTOCK PRODUCTS

United States: Concessions in the United States tariff are obtained under the General Agreement on 24 products in the livestock and livestock products group. On 6 products the full 50 per cent reduction is obtained. Some reduction is received on 5 products and for 13 products the rate is unchanged but as these items are included in the Schedule the import duties are bound against increase.

The tariff quota on live cattle over 700 pounds in weight is increased from 225,000 head per calendar year to 400,000 head for the twelve months commencing April 1. Under the 1938 Trade Agreement with the United States imports were limited to 60,000 head per calendar quarter. If quotas were filled in the first nine months of the year this would leave 45,000 head in the annual quota for admission at the reduced rate of duty in the last calendar quarter. The agreement negotiated with the United States at Geneva provides for a quarterly quota of 120,000 head with a possible residual of 40,000 head in the last three months of the quota year if earlier quarterly quotas are filled. Under the present arrangement it is agreed that the quota year will start on April 1, thus assuring a full quota of 120,000 head in the three months October, November and December, the period of heavy marketings.

Within the tariff quota of 400,000 head the rate of duty continues at $1\frac{1}{2}$ cents per pound. On imports of heavy cattle in excess of the quota the duty is reduced from 3 cents to $2\frac{1}{2}$ cents per pound.

Under the general Agreement the tariff quota for calves weighing up to 200 pounds each is increased from 100,000 head to 200,000 head. The rates of duty continue unchanged at $1\frac{1}{2}$ cents per pound within the quota and $2\frac{1}{2}$ cents per pound on imports in excess of the 200,000 head. No quota limitation is placed on imports of dairy cows and the rate of duty continues at $1\frac{1}{2}$ cents per pound.

A concession of major importance to beef producers and the meat packing industry in Canada is obtained under the General Agreement on beef and veal fresh, chilled or frozen. The United States import duty is reduced from 6 cents per pound to 3 cents per pound. In the year 1927 when the import duty on dressed beef entering the United States was 3 cents per pound Canada exported 53 million pounds for which the cattle equivalent was approximately 100,000 head. If as a result of the Geneva agreement trade is resumed on this scale it will ease the pressure on the United States live cattle import quotas, increase returns to producers and provide employment in Canada for workers in the meat packing industry.

The Geneva agreement provides for a reduction in the effective duty from 3 cents per pound with a minimum of 15 per cent to $1\frac{1}{2}$ cents per pound with a minimum *ad valorem* duty of $7\frac{1}{2}$ per cent on edible animal livers, kidneys,

tongues, hearts, sweetbreads, tripes and brains, fresh, chilled or frozen. On practically all livestock and livestock products Canada has reciprocated by tariff reductions to the same level as the United States.

Under the General Agreement the maximum reduction of 50 per cent in the United States duty is also obtained for lamb from 7 cents to $3\frac{1}{2}$ cents per pound; mutton from 5 cents to $2\frac{1}{2}$ cents per pound; frozen pork from $2\frac{1}{2}$ cents to $1\frac{1}{4}$ cents per pound; and meat pastes, except beef, from 6 cents per pound with a minimum of 10 per cent to 3 cents per pound with a minimum of 10 per cent *ad valorem*.

Some reduction in duty is obtained for horses, from \$15 to \$10 per head for horses valued at less than \$150 per animal and from $17\frac{1}{2}$ per cent to 15 per cent for horses valued over \$150 each; canned meats, except canned beef, from 3 cents per pound but not less than 20 per cent to 3 cents with a minimum rate of 10 per cent. In the case of the wool tariff which the United States negotiated with Australia there is a general reduction of 25 per cent in import duties. Although this concession was granted directly to Australia, Canada as a contracting party to the General Agreement and all other signatories will enjoy the same reduced rates on a most-favoured-nation basis.

The United States import duty continues unchanged on the following livestock and livestock products which by inclusion in the Schedule of the General Agreement are bound against increase; live hogs 1 cent per pound; fresh and chilled pork $1\frac{1}{4}$ cents per pound; bacon and hams 2 cents per pound; sausage casings, free entry; pure bred animals (except silver and black foxes) for breeding purposes, free.

Other Countries: Concessions in countries, other than the United States, of importance to Canadian livestock producers and the industry include a continuation of free entry for cattle, calf, horse and sheep hides into France; the duty on frozen and chilled beef imported by France is fixed in the agreement at 40 per cent *ad valorem*. Indo-China establishes a rate of 10 per cent for salted hams and bacon, and Cuba continues to provide free entry for pure bred cattle.

DAIRY PRODUCTS

United States: Concessions are obtained from the United States on 15 products in the dairy products group. On five products the maximum reduction of 50 per cent is obtained through the General Agreement. Some reduction is received on six products and a binding of the rates by inclusion in the Schedule of the General Agreement applies to four products.

The United States import duty on skin milk powder is reduced from three cents per pound to $1\frac{1}{2}$ cents per pound. The former rate of whole milk powder was $6\frac{1}{12}$ cents, the effective new rate is $3\frac{1}{10}$ cents per pound. The corresponding Canadian duty on these products continues at 5 cents per pound. The United States import duty for cream powder is reduced from $12\frac{1}{3}$ cents to $6\frac{1}{2}$ cents per pound and for lactose the rate is cut from 50 per cent to 25 per cent *ad valorem*. The concession on butter received by New Zealand from the United States is of interest to Canada. The rate of 14 cents per pound is reduced to 7 cents per pound on a tariff quota of 50 million pounds imported during the period November 1 to the following March 31. Canada can participate in the quota which is open to all most-favoured-nation countries at the reduced rate. When the quota is filled, and outside the quota period, the import duty rate of 14 cents per pound is applicable.

The concession obtained from the United States on cheddar cheese is of particular interest to the dairy industry. The former rate of duty was 4 cents per pound with a minimum *ad valorem* rate of 25 per cent. The new rate is

$3\frac{1}{2}$ cents per pound with a minimum of $17\frac{1}{2}$ per cent *ad valorem*. The corresponding Canadian import duty is reduced from 7 cents to $3\frac{1}{2}$ cents per pound.

The tariff quota on whole milk continues at 3,000,000 gallons but the rate of duty on this quantity is reduced from $3\frac{1}{4}$ cents per gallon to 2 cents per gallon. The rate on any quantity imported into the United States in excess of 3,000,000 gallons continues at $6\frac{1}{2}$ cents per gallon.

The tariff quota on cream is unchanged at 1,500,000 gallons. The duty on this quantity is reduced from $28\frac{3}{10}$ cents per gallon to 20 cents per gallon. Cream in excess of the quota continues to be subject to a duty of $56\frac{6}{10}$ cents per gallon.

Under the General Agreement Canada benefits from a reduction in the rate on unsweetened evaporated milk from $1\frac{1}{5}$ cents to 1 cent per pound and a reduction on sweetened condensed milk from $2\frac{3}{4}$ cents per pound to $1\frac{3}{4}$ cents. The Canadian import duty on these products continues at $3\frac{3}{4}$ cents per pound. The duty on buttermilk powder imported into the United States remains unchanged at $1\frac{1}{2}$ cents.

Benelux: Cheese, hard or medium hard which includes Canadian cheddar has been subject to an import duty of 15 per cent and in addition a monopoly duty equivalent to 10 cents per pound in the Netherlands. Under the General Agreement the monopoly duty is eliminated and the only duty imposed is the *ad valorem* rate of 15 per cent. In the Belgian Congo evaporated, condensed and dried milk continue to enter free of duty.

France: Under the Agreement unsweetened evaporated milk is subject to a duty of 10 per cent. The rate on condensed milk is reduced from 20 per cent to 15 per cent. The duty on cheese is cut from 20 per cent to 15 per cent and the butter duty is reduced from 30 per cent to 25 per cent.

Norway: The import duty on cheese remains unchanged at Kr. 1.20 per kilogram.

EGGS AND POULTRY

United States: Substantial reductions in duty were obtained from the United States on all products of interest to Canada in the egg and poultry group. For 5 products the maximum reduction of 50 per cent is received and on 7 products some reduction is obtained. The duty on live poultry entering the United States is reduced from 4 cents a pound to 2 cents. The corresponding Canadian import duty is 15 per cent. The former duty on baby chicks imported into the United States was 4 cents each. Canada obtains a new rate of 2 cents each and reciprocates. For dressed poultry, exclusive of dressed turkeys, the United States rate is reduced from 6 cents a pound to 3 cents a pound. On other dead birds, except turkeys, the rate is cut from 5 cents to $2\frac{1}{2}$ cents per pound. The Canadian rates on these items continue at 15 per cent. On canned chicken the United States rate which formerly was 10 cents a pound is now 5 cents a pound. The Canadian rate is reduced from 30 per cent to 20 per cent.

Canada obtains an important concession in fresh eggs by the reduction in the United States duty from 5 cents per dozen to $3\frac{1}{2}$ cents per dozen. Canada reciprocates in this reduction. The import duty on frozen whole eggs, frozen egg yolk, and frozen egg albumen entering the United States is cut from 11 cents per pound to 7 cents. Through the Geneva agreement the following reductions are received from the United States: dried whole eggs, dried egg yolk and dried egg albumen from 27 cents to 17 cents per pound. The Canadian duty is maintained at 25 per cent *ad valorem* on dried egg products.

APPLES

One of Canada's most important contributions to the General Agreement on Tariffs and Trade which has for its purpose the reduction of tariffs, the elimination of tariff preferences and other trade restrictions is the relinquishing

of the apple preference in the United Kingdom. Canadian apples have always enjoyed free entry into the United Kingdom market. Through the Ottawa agreement in 1932 a duty of 4s. 6d. per hundredweight was imposed on non-Empire apples. In the 1938 Trade Agreement between the United States and the United Kingdom this duty was reduced to 3s. per hundredweight for the period August 16 to April 15. At Geneva, Canada agreed to the elimination of the apple preference during the Northern Hemisphere marketing season so that now apples from all sources enter the United Kingdom market free of duty from August 16 to April 15 inclusive. During the balance of the year the duty continues at 4s. 6d. per 112 pounds.

Compensation for the apple concession is obtained mainly from the United States but it cannot be matched with any single item among the United States concessions. It is a part of a mutually advantageous agreement between Canada and its neighbour and other contracting parties.

Apart from the treatment of the preference in the United Kingdom market Canada and the United States entered into negotiations at Geneva with a view to reducing their existing tariffs on apples. The Canadian duty has amounted to approximately 60 cents per bushel compared with the United States duty of 15 cents per bushel of 50 pounds. In the Geneva agreement the United States agrees to reduce its duty to $12\frac{1}{2}$ cents per bushel and Canada agrees to a rate of $\frac{3}{4}$ cent per pound equivalent to $37\frac{1}{2}$ cents per bushel of 50 pounds for the period July 13 to May 19 inclusive. During the period May 20 to July 12 inclusive Canada agrees to admit apples free of duty.

For canned apples the United States duty is reduced the maximum of 50 per cent from $2\frac{1}{2}$ cents per pound to $1\frac{1}{4}$ cents per pound. The maximum reduction of 50 per cent is also obtained from the United States for dried apples. The former rate of 2 cents per pound now becomes 1 cent per pound.

Benelux: An important concession on fresh apples and pears is obtained in Benelux where a customs duty of 12 per cent and a monopoly charge of 40 per cent were imposed on imports. Under the Geneva agreement the customs duty and Netherlands monopoly duty or corresponding Belgium-Luxembourg charge together shall not exceed 20 per cent during the period from June 1 to January 31 inclusive. From February 1 to May 31 the customs duty is limited to 6 per cent without any monopoly duty or corresponding charge. On dried apples and pears Benelux cuts the duty from 15 per cent to 12 per cent and the rate on apple juice continues at 20 per cent *ad valorem*.

Brazil: Brazil agrees to the continued free entry of fresh and dried apples.

Czechoslovakia: The customs duty on fresh apples entering Czechoslovakia is reduced from Kcs. 300 per 10 kilograms to Kcs. 75 from November 1 to May 31 and on dried apples and pears from Kcs. 300 to Kcs. 50 per 100 kilograms. On other dried fruit the former rate of Kcs. 300 becomes Kcs. 100 per 100 kilograms.

France: The effective rate of duty on fresh apples imported into France has been 15 per cent *ad valorem*. In the Geneva agreement France agrees to a rate of 12 per cent from August 1 to February 14, then 8 per cent from February 15 to March 31 and 6 per cent from April 1 to May 31. From June 1 to July 31 the duty is 8 per cent. France further agrees to reduce the duty on dried apples from 15 per cent to 10 per cent and on apple juice from 20 per cent to 10 per cent. In Indo-China the *ad valorem* duty of 15 per cent which was effective throughout the year now applies to the period July 1 to March 31 with free entry guaranteed from April 1 to July 30.

Norway: The effective duty on fresh apples imported into Norway was 80 Kr. per 100 kilograms from August 1 to March 15 and 40 Kr. from March 16 to July 31. The new rates are 80 Kr. per 100 kilograms from August 1 to February 15, 40 Kr. from February 16 to March 15 and 20 Kr. per 100 kilograms from March 16 to July 31.

While the United Kingdom will continue to be an important export market for Canadian apples they will meet more competition there in future from outside sources and from increasing domestic production. Since 1932 Canada has relied almost entirely on a single export market in the United Kingdom where competition from a large English crop has at times resulted in low returns to the producers. The Geneva agreement opens up new and wider markets which in the long run will compensate and should be to the advantage of the advantage of the Canadian apple growers.

POTATOES

United States: Canada obtains an important concession from the United States on certified seed potatoes through the enlargement of the tariff quota from 1,500,000 bushels to 2,500,000 bushels for importation during the twelve months commencing September 15. The rates of duty remain unchanged at $37\frac{1}{2}$ cents per 100 pounds or $22\frac{1}{2}$ cents per bushel within the quota. Imports of certified seed potatoes in excess of 2,500,000 bushels are subject to the full duty of 75 cents per 100 pounds, which is equivalent to 45 cents per bushel.

With respect to table potatoes the United States removes the intermediate rate of 60 cents per 100 pounds which applied from December 1 to the last day of the following February. No concession is obtained in the United States quota tariff and the quota of 1,000,000 bushels remains unchanged. The rate of $37\frac{1}{2}$ cents per 100 pounds or $22\frac{1}{2}$ cents per bushel now applies throughout the year commencing September 15 to the quota of 1,000,000 bushels. Imports in excess of this quantity pay the full rate of duty of 75 cents per 100 pounds.

The Geneva agreement provides for a reduction in the United States duty on dried potatoes from $2\frac{3}{4}$ cents to $1\frac{1}{2}$ cents per pound and the duty on potato starch is reduced from $1\frac{3}{4}$ cents per pound to 1 cent.

Others Countries: Brazil binds free entry certified seed potatoes. With respect to certified seed potatoes Canada obtains from Cuba treatment similar to that accorded to the United States with free entry guaranteed from September 1 to January 31. France reduces the rate of duty on certified seed potatoes from 30 per cent to 15 per cent within the limits of a quota. Seed potatoes in excess of the quota and table potatoes are subject to a duty of 30 per cent from July 1 to the last day of February. Outside this period the duty is 25 per cent. In French Guiana the rate of duty on all fresh potatoes is reduced from 15 per cent to free.

Canada: The Canadian tariff on potatoes remains unchanged. From June 15 to July 31 a duty of $37\frac{1}{2}$ cents per 100 pounds continues to be imposed on table potatoes. During the balance of the year table potatoes enter Canada free of duty. Under the Canadian tariff certified seed potatoes are admitted duty free.

TURNIPS AND BLUEBERRIES

The Maritime Provinces and Ontario will be particularly interested in the concessions obtained from the United States on turnips and rutabagas and blueberries and the province of Quebec will share this interest in the case of blueberries.

In 1946 Canada exported over 3 million bushels of turnips and rutabagas valued at \$2 million to the United States. This trade originated mainly in Ontario and Prince Edward Island. In the 1935 Trade Agreement with the United States the import duty on turnips was reduced from 25 cents per 100 pounds to $12\frac{1}{2}$ cents. In the 1938 agreement this reduced rate was confirmed. The new Geneva agreement provides for the maximum reduction in the United States duty on turnips and rutabagas from $12\frac{1}{2}$ cents to $6\frac{1}{4}$ cents per 100 pounds.

Approximately 15 million pounds of blueberries were shipped to the United States in 1946 from Eastern Canada valued at over \$3 million. The 1930 United States Tariff Act imposed a duty of 35 per cent on frozen and canned

blueberries and $1\frac{1}{4}$ cents per pound on fresh blueberries. In the 1935 Agreement the duty on frozen and canned blueberries was reduced to 25 per cent. When the Agreement with the United States was negotiated in 1938 a reduction to $17\frac{1}{2}$ per cent was obtained for the frozen and canned berries and the duty on fresh blueberries was cut to 1 cent per pound. As a result of tariff discussions at Geneva the United States duty on frozen and canned blueberries now becomes 10 per cent *ad valorem* and the duty on fresh blueberries is confirmed at 1 cent per pound.

OTHER FRUITS AND VEGETABLES

Under the General Agreement the basic *ad valorem* rate of 10 per cent continues to apply on fresh fruits, other than citrus fruits, and vegetables imported into Canada. The system of affording additional seasonal protection to fruit and vegetable growers by means of advances in the dutiable value of imports during the period when the domestic crop is coming on the market is discontinued. In place of this system a straight specific import duty for each fruit or vegetable applies for a maximum period of time, the effective dates of its application being dependent on the Canadian marketing season. For certain vegetables the agreement provides a division of the period into two parts when the specific duty applies in order to give protection to the producers of early vegetables and later to main crop producers or holders of stored stocks. The split period arrangement applies to the following vegetables: green beans, cabbage, carrots, beets, cauliflower, celery and lettuce.

OTHER TREE FRUITS AND GRAPES

United States: Through the General Agreement the following concessions on tree fruits, other than apples, and on grapes were obtained from the United States. The import duty on fresh cherries is reduced from 1 per cent to $\frac{1}{2}$ cent per pound and on maraschino cherries from $9\frac{1}{2}$ cents per pound plus 20 per cent to 7 cents plus 10 per cent. The United States duty on peaches remains unchanged at $\frac{1}{2}$ cent per pound and the duty on canned peaches is reduced from 35 per cent to 20 per cent. The duty on canned pears is reduced from 35 per cent to 20 per cent and for dried apricots the duty is cut from 2 cents to 1 cent per pound. For canned plums and prunes the duty is reduced from 35 per cent to $17\frac{1}{2}$ per cent, and on fresh fruits for which no specific provision is made in the United States tariff the duty is reduced from 35 per cent to $17\frac{1}{2}$ per cent. The new duty on fresh grapes entering the United States is $17\frac{1}{2}$ cents per cubic foot in place of the former rate of 25 cents per cubic foot.

Canada: Canadian specific rates of duty on tree fruits and grapes, which become effective with the entry into force of the General Agreement, are as follows: Apricots 1 cent per pound for 10 weeks; cherries 2 cents per pound for 7 weeks; peaches $1\frac{1}{2}$ cents per pound for 9 weeks; pears 1 cent per pound for 15 weeks; plums and prunes 1 cent per pound for 10 weeks. Imports of grapes of the *Vitis Labrusca* species which is the type grown commercially in Canada are dutiable at 1 cent per pound for 15 weeks. Grapes of the *Vitis Vinifera* species commonly known as the European or California type are admitted into Canada duty free. During the period of the year when the specific rates on the foregoing fruits are not in effect the basic duty of 10 per cent *ad valorem* applies. Fresh fruits not otherwise provided for in the Canadian tariff which formerly were subject to a duty of 10 per cent now enter Canada free of duty. Canada also removes import duties on grapefruit and oranges and grants free entry to these fruits the year round. Lemons and pineapples are retained on the free list.

Canada agrees to reduce the 1938 Agreement rate of duty on imports of canned peaches from $3\frac{1}{2}$ cents to $2\frac{1}{2}$ cents per pound, on canned apricots and pears from 3 cents to 2 cents per pound and on canned pineapple from 3 cents to 2 cents

per pound. On canned fruits not otherwise provided for the rate is reduced from 3 cents to 1 cent per pound. Dried plums and prunes on which a duty of 1 cent per pound formerly applied will now be admitted into Canada free of duty. The 1938 Agreement rate of 15 per cent for dried fruits not otherwise provided for is reduced to 10 per cent *ad valorem*. Canada makes a substantial reduction in the most-favoured-nation duty on raisins from 4 cents to 3 cents per pound, Commonwealth raisins remaining duty free. Other reductions in the Canadian tariff are as follows: dried apricots, nectarines, pears and peaches from $22\frac{1}{2}$ per cent to 15 per cent; canned fruit pulp, other than grape pulp, not sweetened, from $2\frac{1}{2}$ cents to $1\frac{1}{2}$ cents per pound; fruit pulp not otherwise provided for and crushed fruits from $2\frac{1}{2}$ cents to 2 cents per pound; frozen fruits from $2\frac{1}{2}$ cents to 2 cents per pound; jellies, jams and marmalades from $3\frac{3}{4}$ cents to $3\frac{1}{4}$ cents per pound.

British Tariff Preference: At Geneva Canada agreed to the elimination of the tariff preference of 7s. per hundredweight in the United Kingdom on dried apples, pears and peaches. Canada will continue to enjoy free entry into the United Kingdom for canned pears but agreed to a reduction from 15 per cent to 12 per cent *ad valorem* for non-Commonwealth countries.

OTHER BERRIES

United States: Apart from the concession on blueberries which is dealt with in an earlier section of this statement the following reductions in United States duties on berries are of importance to Canadian fruit growers: strawberries, reduced from $\frac{3}{4}$ cent per pound to $\frac{1}{2}$ cent per pound for the period June 15 to September 15; raspberries and loganberries, from $\frac{3}{4}$ cent to $\frac{1}{2}$ cent per pound, July 1 to August 31; lingon and partridge berries, from $\frac{5}{8}$ cent to $\frac{3}{8}$ cent per pound; other fresh berries, rate unchanged at $\frac{3}{4}$ cent per pound; other frozen berries, from $17\frac{1}{2}$ per cent to 14 per cent; other canned berries, from $17\frac{1}{2}$ per cent to 14 per cent; cantaloupes, from 35 per cent to 25 per cent. August 1 to September 15; fruit pulp, from 35 per cent to $17\frac{1}{2}$ per cent; currant and other berry jellies from 20 per cent to 10 per cent *ad valorem*.

Canada: New Canadian specific rates for a definite period are as follows, otherwise the rate is 10 per cent *ad valorem*: strawberries $1\frac{3}{4}$ cents per pound for 6 weeks; raspberries and loganberries 2 cents per pound for 6 weeks; the rate is unchanged at 10 per cent *ad valorem* for edible berries not otherwise provided for; cranberries, 1 cent per pound for 12 weeks; cantaloupes and muskmelons, $1\frac{1}{4}$ cents per pound for 8 weeks.

OTHER FRESH VEGETABLES

United States: In addition to concessions obtained from the United States on potatoes and turnips which are treated separately in this statement the following reductions were negotiated. The import duty on cabbage is reduced from $1\frac{1}{2}$ cents to $\frac{3}{4}$ cent per pound; carrots from 25 to $12\frac{1}{2}$ per cent; cauliflower from 25 to $12\frac{1}{2}$ per cent from June 5 to August 5; celery from 2 cents to 1 cent per pound from August 1 to April 14 and from 1 cent to $\frac{1}{2}$ cent per pound from April 15 to July 31; cucumbers from 3 cents to $1\frac{1}{2}$ cents per pound from July 1 to August 31; lettuce from 2 cents to 1 cent per pound from June 1 to October 31; onions from $2\frac{1}{2}$ cents to $1\frac{3}{4}$ cents per pound; green peas from 2 cents to 1 cent per pound from July 1 to September 30; radishes from 25 to $12\frac{1}{2}$ per cent from July 1 to August 31; beets are unchanged at 10 per cent; the rate on tomatoes is unchanged at $1\frac{1}{2}$ cents per pound but the season commencing July 15 is extended from August 15 to August 31; mushrooms from 10 cents plus 45 per cent to

5 cents per pound plus 25 per cent. On the following fresh vegetables a reduction from 50 per cent *ad valorem* to 25 per cent is obtained; asparagus, brussels sprouts, parsley, rhubarb, spinach and okra.

Canada: New Canadian specific rates of duty on imported fresh vegetables are established in the Geneva agreement. During the period when the specific duty is not effective the basic rate of 10 per cent *ad valorem* applies. The new rates are as follows: asparagus $3\frac{1}{2}$ cents per pound for 8 weeks; cabbage $\frac{9}{10}$ cent per pound for 26 weeks; cauliflower $\frac{3}{4}$ cent per pound for 20 weeks; celery 1 cent per pound for 24 weeks; cucumbers $2\frac{1}{4}$ cents per pound for 12 weeks; lettuce 1 cent per pound for 18 weeks; green peas 2 cents per pound for 12 weeks; carrots and beets 1 cent per pound for 26 weeks; green beans $1\frac{1}{2}$ cents per pound for 14 weeks; tomatoes $1\frac{1}{2}$ cents per pound for 32 weeks; mushrooms $3\frac{1}{2}$ cents per pound for 52 weeks; onions 1 cent per pound for 40 weeks; rhubarb $\frac{1}{2}$ cent per pound for 10 weeks; the rate of 10 per cent *ad valorem* continues unchanged for brussels sprouts, parsley, spinach, watercress and vegetables not otherwise provided for. The duty on onion sets and shallots is reduced from 30 to 15 per cent; truffles take a rate of 10 per cent *ad valorem*; eggplant, sweet potatoes and yams, whitloof or endive, artichokes, horseradish and okra enter Canada duty free.

PROCESSED VEGETABLES

United States: Through the Geneva agreement a reduction in duty from 2 cents to 1 cent per pound is obtained in the United States tariff for canned peas. Other concessions in the United States tariff on processed vegetables are as follows: tomato juice from 10 cents to 5 cents per gallon; canned mushrooms from 8 cents plus 25 per cent to 5 cents per pound plus 15 per cent; canned and dried vegetables not specifically provided for, from 35 per cent to $17\frac{1}{2}$ per cent; soups from 35 to $17\frac{1}{2}$ per cent; pickled onions from 25 per cent and sauces from 35 to $17\frac{1}{2}$ per cent.

Canada: Tariff concessions made by Canada on processed vegetables are as follows: canned peas, beans and corn bound against increase in duty at $1\frac{1}{2}$ cents per pound; canned and dried mushrooms reduced from $20\frac{5}{8}$ per cent to 15 per cent; canned vegetables, not otherwise provided for, reduced from 20 per cent to 15 per cent; dried vegetables reduced from $22\frac{1}{2}$ per cent to 20 per cent; frozen vegetables reduced from 25 to 20 per cent; vegetable pickles are reduced from $32\frac{1}{2}$ to $22\frac{1}{2}$ per cent; vegetable juices and sauces from $27\frac{1}{2}$ per cent to 20 per cent.

British Tariff Preference: Through the General Agreement Canada and other Commonwealth countries retain free entry in the United Kingdom for canned peas, asparagus, beans and corn, but relinquish one-half of the preference of 20 per cent on canned peas and beans and entry into the United Kingdom market at 10 per cent *ad valorem* is now extended to all countries.

FORAGE CROP SEEDS

The tariff concessions on clover and grass seeds provide a good example of reciprocal treatment on the part of Canada and the United States in their tariff negotiations at Geneva with respect to agricultural products. In most instances duties have been reduced on a mutually advantageous basis to the same level.

United States: The United States duty on red clover seed is reduced from 4 cents to 2 cents per pound; alsike clover from 4 cents to 2 cents per pound; alfalfa from 4 cents to 2 cents per pound; Sweet clover from 2 cents to 1 cent per pound; crimson clover from 2 cents to 1 cent per pound; timothy seed from 1 cent to $\frac{1}{2}$ cent per pound; bent grass from 20 cents to 15 cents per pound; Canada bluegrass and Kentucky bluegrass seed from $2\frac{1}{2}$ cents to 2 cents per

pound; meadow fescue from 2 cents to 1 cent per pound; Chewings fescue from 2 cents to 1 cent per pound; other fescues from 2 cents to 1 cent per pound; rye grass is bound against increase at $1\frac{1}{2}$ cents per pound; brome and crested wheat grass are bound against increase at 1 cent per pound; grass seeds not specifically provided for from 2 cents to 1 cent per pound.

Other Countries: Benelux binds the free entry of clover and alfalfa seed. Grass seeds are admitted free of customs duty with a monopoly fee of 15 florins or 247.80 francs per 100 kilograms. Czechoslovakia reduces the duty on alfalfa from Kcs 350 per 100 kilograms to Kcs 85 per 100 kilograms and the duty on grass seeds from Kcs 500 to Kcs 440 per 100 kilograms. France binds the free entry of clover and other forage crop seeds. Flax seed for sowing is free within quota limits. India reduces the import duty on clover and grass seeds from 30 per cent to 15 per cent.

Canada: In the agreement Canada reduces the import duty on all clover and alfalfa seed from $2\frac{1}{4}$ cents to 2 cents a pound; timothy seed from 2 cents to $\frac{1}{2}$ cent per pound; bent grass seed from 27 per cent to $22\frac{1}{2}$ per cent; millet and rape seed from 9 per cent to $7\frac{1}{2}$ per cent; field seeds, not otherwise provided for, from 9 per cent to $7\frac{1}{2}$ per cent *ad valorem*.

VEGETABLE SEEDS

United States: As a result of negotiations with various countries the following reductions in import duties on vegetable seeds are received from the United States on a poundage basis: mangel seed from 2 cents to 1 cent; celery from 2 cents to 1 cent; beet, except sugar beet, from 3 cents to 2 cents; parsnip from 4 cents to 3 cents; turnip and rutabaga from 3 cents to 2 cents; cabbage from 6 cents to 5 cents; radish from 3 cents to 2 cents; kale from 3 cents to 2 cents; pepper from 15 cents to 10 cents; kohlrabi from 8 cents to 5 cents. The duty on the following vegetable seeds are bound against increase, parsley at 2 cents; carrot at 3 cents; cauliflower at 25 cents; spinach at $\frac{1}{2}$ cent; vegetable seeds not specifically provided for, from 3 cents to 2 cents per pound.

Canada: The following concessions are agreed to by Canada on a poundage basis when in packages weighing more than one pound each; mangel and turnip seed from 4 cents to 2 cents; beet, not including sugar beet, from 3 cents to 2 cents; parsley and parsnip are bound against increase at 2 cents; radish, leek, lettuce, carrot, borecole or kale from 3 cents to 2 cents; cabbage and cucumber from 5 cents to 4 cents; tomato and pepper from 10 to $7\frac{1}{2}$ cents; cauliflower from 15 cents to $12\frac{1}{2}$ cents; onion from 20 cents to 15 cents; root, garden and other seeds not otherwise provided for, from 5 cents to $2\frac{1}{2}$ cents per pound. Field, root, garden and other seeds in packages weighing one pound each, or less, from 25 per cent to 20 per cent *ad valorem*.

NURSERY AND GREENHOUSE STOCK

United States: Growers of nursery and greenhouse stock and bulb growers receive substantial concessions from the United States through the Geneva agreement. United States import duties are reduced as follows: grafted or budded fruit trees, cuttings and seedlings of fruit vines, plants or bushes, from 25 per cent to $12\frac{1}{2}$ per cent; grafted roses from 4 cents to 2 cents each; grafted or budded plants, cuttings and seedlings of ornamental trees, shrubs and vines, and all nursery or greenhouse stock, not specifically provided for, from 25 per cent to $12\frac{1}{2}$ per cent; cut flowers, except orchids, from 25 per cent to $12\frac{1}{2}$ per cent; hyacinth bulbs from \$4 to \$2 per thousand; crocus corms from \$1 to 50 cents per thousand; narcissus bulbs from \$6 to \$5 per thousand; bulbs, roots, etc., not elsewhere specified, from 15 per cent to 10 per cent; tulip bulbs are bound against increase at \$3 per thousand; seedlings, layers, and cuttings of tree fruit stock

are bound against increase at \$2 per thousand; and a binding rate applies to seedling roses at \$1 per thousand. The duty on tree and shrub seeds is reduced from 4 cents to 3 cents per pound. The tariff rate on flower seeds remains unchanged at 3 cents per pound; and on seeds not specifically provided for the duty is reduced from 3 cents to 2 cents per pound.

Canada: The Canadian duties on most nursery and florist stock items remain unchanged and are bound against increase in the new agreement. In the case of the florist stock tariff item which includes palms, ferns, rubber plants, gladioli, cannas, dahlias and peonies, the duty is reduced from 20 $\frac{3}{10}$ per cent to 17 $\frac{1}{2}$ per cent. The duty on azaleas, rhododendrons, rose stock and other stock for grafting or budding, not otherwise provided for, is reduced from 15 to 12 $\frac{1}{2}$ per cent; cut flowers, except orchids, take a new rate of 12 $\frac{1}{2}$ per cent, the former rate was 25 per cent. The duty on trees, shrubs, vines, plants, roots and cuttings commonly known as florist or nursery stock, not otherwise provided for, is reduced from 17 $\frac{1}{2}$ per cent to 12 $\frac{1}{2}$ per cent *ad valorem*.

FURS AND FUR BEARING ANIMALS

United States: The duty of 15 per cent *ad valorem* on live silver or black foxes imported into the United States is bound against increase. In the 1938 Trade Agreement with Canada the United States reduced the duty on dressed or undressed silver or black fox furs or skins from 50 per cent to 37 $\frac{1}{2}$ per cent. In the Geneva agreement this rate is confirmed and bound against increase. Other undressed furs and fur skins, not specifically provided for, including mink and muskrat are free of duty on importation into the United States and in the Geneva agreement the duty-free entry is bound.

Substantial reductions are received from the United States on dressed furs and fur skins. If not dyed, marten, otter, beaver, fisher, raccoon, wolf, ermine, lynx, chinchilla, sable, fox other than silver or black and mink take a rate of 7 $\frac{1}{2}$ per cent in the General Agreement. If not dyed, muskrat, squirrel, skunk, badger and weasel are admitted at a rate of 12 $\frac{1}{2}$ per cent. When dyed the rates of duty set forth above are increased by 2 $\frac{1}{2}$ per cent.

Other Countries: Benelux continues to admit raw furs free of duty, dressed furs at 6 per cent and made-up furs at 24 per cent. Brazil reduces the rate of 58.24 cr. per legal kilogram on whole skins prepared or tanned to 29.12 cr. China binds a duty of 10 per cent on undressed furs and 20 per cent on dressed or dyed furs. Czechoslovakia confirms free entry for fox skins. France binds the free entry of raw furs, reduces an *ad valorem* rate of 15 per cent on prepared sea otter and beaver skins to free entry and the import duty on other prepared furs is reduced from 15 per cent to 10 per cent.

SPECIAL PRODUCTS, INCLUDING MAPLE PRODUCTS, HONEY AND TOBACCO

United States: The concessions received from the United States on maple sugar and maple syrup will be of interest to producers in the province of Quebec particularly. Prior to the 1935 Trade Agreement the rates of duty on these products were 6 cents and 4 cents per pound respectively. The duty on maple sugar was reduced in the 1935 Trade Agreement to 4 cents per pound without any reduction in the duty on maple syrup. The 1938 Trade Agreement provided for a 50 per cent reduction from the rates on both products in force prior to the conclusion of the 1935 Trade Agreement, or effective rates of 3 cents per pound on maple sugar and 2 cents per pound on maple syrup. The 1938 Agreement rates of duty are reduced in the Geneva Agreement to 2 cents per pound on maple sugar and 1 $\frac{1}{2}$ cents per pound on maple syrup. The duty on honey imported into the United States is reduced from 1 $\frac{1}{2}$ cents per pound to 1 cent per pound. The United States duties on most types of tobacco are

reduced substantially. On manufactured and unmanufactured tobacco, not specially provided for, the duty is reduced from 35 cents per pound to 17½ cents per pound. In the agreement the United States binds the duty of unmanufactured flax, hackled, at 1½ cents per pound; flax, not hackled, at ¾ cent per pound; flax tow at ½ cent per pound and flax straw at \$1.50 per ton. The duty on flax noils is reduced from ½ cent per pound to ¼ cent per pound. The duty on hops, valued at 50 cents or more per pound, is reduced from 24 cents to 12 cents per pound. Peat moss of poultry and stable grade is bound at 50 cents per ton and the free entry of peat moss, fertilizer grade, is bound. Evergreen Christmas trees imported into the United States are subject to a duty of 5 per cent *ad valorem*. This rate is confirmed in the Geneva Agreement.

France: In the General Agreement France reduces the duty on maple syrup and maple sugar from 130 per cent to 30 per cent *ad valorem*.

Canada: The duty on honey entering Canada continues at 1½ cents per pound and the rate is bound against increase. The duty on beeswax, unrefined, is reduced from 18 per cent to duty free and beeswax, not otherwise provided for, from 18 to 15 per cent. The Canadian import duty on unmanufactured tobacco of the Turkish type, unstemmed, is reduced from 40 cents per pound to 30 cents per pound; on unmanufactured, stemmed tobacco of the Turkish type, the duty is reduced from 60 cents per pound to 40 cents per pound. With respect to unmanufactured tobacco, not otherwise provided for, the duty on unstemmed leaf is reduced from 40 cents per pound to 20 cents per pound; and the duty on stemmed tobacco is reduced from 60 cents per pound to 30 cents per pound. The Canadian import duty on hops remains unchanged at 10 cents per pound and this rate is bound against increase.

CONCESSIONS ON FOREST PRODUCTS

Lumber and Shingles: Under the Geneva Agreement, Canada obtains a number of new concessions on lumber and its products, particularly with regard to exports to the United States. These concessions apply not only to the tariff but also to the Internal Revenue Code tax imposed on imports, which has for some time past been more burdensome than the tariff proper.

An outstanding concession in this field is that affecting imports into the United States of softwood lumber of fir, hemlock, spruce, pine and larch. On sawed and dressed boards, planks, deals and sawn timber of these kinds, not separately provided for, the tariff rates conceded under former agreements have been reduced by the maximum 50 per cent permitted under United States law (i.e. from 50 cents to 25 cents per thousand board feet), and the I.R.C. tax has been reduced by 50 per cent (i.e. from \$1.50 to 75 cents per thousand board feet), bringing down the total impost on imports of these types of lumber from \$2 to \$1 per thousand board feet. On lumber of other species of soft woods, duty-free entry is bound and the revenue tax on lumber of cedar is reduced to 75 cents per thousand board feet. Duty-free entry for lumber of certain hard woods is bound as is also the revenue tax of \$1.50 per thousand board feet.

Under the 1938 Agreement, red cedar shingles were admitted duty free under a quota equal to 30 per cent of average United States consumption over the previous three years, the duty on imports in excess of this quota being 25 cents per square of 100 square feet. The quota and the ex-quota duty were imposed by Act of Congress to remain so long as red cedar shingles continue to be included in any trade agreement entered into by the United States under authority of Section 350 of the Tariff Act of 1930 as amended. Accordingly, if the United States should cease to have a trade agreement obligation respecting the importation of red cedar shingles, the duty would not apply. In these circumstances, it was agreed to omit any reference to red cedar shingles from the Geneva Agreement, thus securing immediate elimination of the existing ex-quota duty.

In the Benelux customs union, pulpwood and logs as well as woodpulp were already free of duty and have been bound free. The rate on tongued and grooved wood has been bound at 10 per cent, and that on veneer sheets has been bound at 6 per cent.

A number of reductions in tariff duties on lumber and wood products have been conceded by France. On logs and pulpwood the duty has been reduced from 15 per cent to 10 per cent, on leaves of veneer from 20 per cent to 15 per cent, on tongued and grooved wood from 20 per cent to 18 per cent, and on wood pulp the duty has been reduced from rates of 25 per cent and 30 per cent to 22 per cent and 24 per cent respectively. The duty on veneer and plywood panels has been bound at 25 per cent and that on tool handles has been bound at 8 per cent.

India and Pakistan have reduced their rates on wooden railway sleepers from $18\frac{1}{2}$ per cent to 15 per cent and on timber of Douglas fir from 30 per cent to 20 per cent.

Chile has bound its duty on pine, rough or sawn, including Douglas fir, at 70 gold pesos per cubic meter. Czechoslovakia has bound free its duties on building woods in logs or rough blocks. Lebanon and Syria have bound at 25 per cent their duties on boxes and box shooks. China has bound a number of lumber and timber items at rates which were already comparatively low.

Other wood and manufactures thereof:

In addition to concessions on lumber and shingles, the Geneva Agreement covers a large variety of wood and manufactures of wood. The United States has again bound free entry as in the 1935 and 1938 Trade Agreements for logs, unmanufactured round timber, pulpwood, firewood, handle bolts, shingle bolts, laths, posts, railroad ties, telephone, trolley, electric light and telegraph poles, pickets, palings, hoops and staves. The reduction from 8 to 4 per cent in the duty on maple, birch and beech flooring, first secured in the 1935 Trade Agreement, is confirmed. The maximum reduction from 20 to 10 per cent *ad valorem* obtained in the 1938 Trade Agreement on veneers of birch and maple has now been extended to cover veneers of all woods.

Maximum reductions are provided on red cedar plywood, reduced from 40 to 20 per cent; on wooden chairs reduced from 40 to 20 per cent; on other furniture, except bentwood, and on wood flour reduced from 25 to $12\frac{1}{2}$ per cent.

The existing rates obtained in a former trade agreement of 5 per cent *ad valorem* on hubs for wheels, heading bolts, stave bolts, last blocks, wagon blocks, heading blocks, match blocks, sticks, etc., and $7\frac{1}{2}$ per cent *ad valorem* on casks, barrels (other than beer barrels), and hogsheads are confirmed in the new agreement.

The duty on a number of manufactures of wood including paint brush handles, broom and mop handles, ice-hockey sticks, toboggans, canoes and canoe paddles, baby carriages, and wheelbarrows, which was reduced from $33\frac{1}{3}$ to 20 per cent in the 1938 Trade Agreement, is now further reduced to 15 per cent. There is a maximum reduction from $33\frac{1}{3}$ to $16\frac{2}{3}$ per cent *ad valorem* on badminton and tennis racket frames valued at less than \$1.75 and from 20 to 10 per cent on those valued at \$1.75 or more. On picture and mirror frames, shuttles, bobbins, badminton rackets, golf club shafts, skis and parts of skis, snowshoes, and fruit picking trays whether or not in knocked-down condition the maximum reduction from $33\frac{1}{3}$ to $16\frac{2}{3}$ per cent *ad valorem* has been conceded in the new agreement.

On manufactures of wood not specially provided for, the duty is reduced from $33\frac{1}{3}$ to 25 per cent.

In consequence of the action of the United States in making a 50 per cent reduction of its Internal Revenue Code tax on imported lumber, and in conformity with the Lumber Declaration to which Canada, the United States

and Great Britain all agreed in 1938, Canada has accepted a corresponding reduction of 50 per cent in the margins of preference on lumber enjoyed in the United Kingdom and other parts of the British Commonwealth.

Pulp and Paper: The Geneva Trade Agreement continues the binding of duty-free entry into the United States of standard newsprint which is Canada's largest export to that market, and of wood pulps of all kinds. The reduction from $\frac{1}{4}$ cent per pound plus 10 per cent *ad valorem* to $\frac{1}{5}$ cent per pound plus 5 per cent *ad valorem* obtained in the 1938 Trade Agreement on uncoated printing paper is confirmed in the new trade agreement. The reduced duties provided for in the 1938 Trade Agreement on hanging paper, the raw material for wallpaper, and on certain classes of tissue papers are confirmed in the new agreement. On pulpboard in rolls for use in the manufacture of wallboard the duty of 5 per cent *ad valorem* in the case of unfinished board is bound, and in the case of finished board a further reduction from 15 to 10 per cent is secured. In the 1938 Trade Agreement the duty on tourist literature of *bona fide* foreign authorship and not consisting principally of illustrations, maps or charts, was reduced from 15 to $7\frac{1}{2}$ per cent, and the duty on other kinds from 25 to $12\frac{1}{2}$ per cent. The new agreement provides for further maximum reductions in these duties, bringing the new rates to $3\frac{3}{4}$ per cent on tourist literature of *bona fide* foreign authorship, and $6\frac{3}{4}$ per cent in other cases. On other types of printed matter including books, the duties are substantially reduced. The duty on crepe paper valued at not more than $12\frac{1}{2}$ cents per pound is reduced from 3 cents per pound and $7\frac{1}{2}$ per cent to $1\frac{1}{2}$ cents per pound and $3\frac{3}{4}$ per cent. The maximum reduction has been made on correspondence cards, note and letter paper, bringing the rate from 3 cents per pound and 25 per cent *ad valorem* to $1\frac{1}{2}$ cents per pound and $12\frac{1}{2}$ per cent.

Canada has also secured the binding of duty-free entry of newsprint in Brazil, Cuba, Lebanon, and Syria. Another concession is the binding free of duty of wood pulp in Benelux. A reduction in duty from 40 to 35 per cent on kraft paper and cardboard, and in the binding of duty-free entry for books are accorded by France.

CONCESSIONS ON FISHERY PRODUCTS

Under the Geneva Agreement Canada has obtained tariff concessions on practically all species of fish, both fresh and salt water, and whether fresh, frozen, dried, smoked, or canned.

In the United States, the duties on fresh or frozen white fish, yellow pike, jack or grass pike, lake trout, yellow perch, tullibees, lake herring and ciscoes, chubs, mullet, saugers, blue pike, cod, haddock, hake, pollock and cusk without fins removed, have been reduced from $\frac{3}{4}$ cent to $\frac{1}{2}$ cent per pound. On fresh or frozen salmon and halibut the duty has been reduced from 1 cent to $\frac{1}{2}$ cent per pound. The duties on fresh mackerel, formerly 1 cent per pound, and frozen mackerel, formerly $1\frac{1}{2}$ cents, have both been reduced to $\frac{3}{4}$ cent per pound. The duty on fresh swordfish is bound at 1 cent per pound and that on frozen swordfish reduced from 3 cents to $1\frac{1}{2}$ cents per pound. On fresh sturgeon, the duty is bound at $\frac{1}{2}$ cent per pound and on frozen sturgeon it has been reduced from 1 cent to $\frac{1}{2}$ cent per pound. On shad and eels the duty is bound at $\frac{1}{2}$ cent per pound and on fresh water fish not elsewhere provided for the duty is reduced from 1 cent to $\frac{1}{2}$ cent per pound.

On fresh or frozen fillets of cod, haddock, hake, pollock, cusk and rose fish, a very important export trade, the duty has been bound at $1\frac{7}{8}$ cents per pound on the existing quota of 15 per cent of average United States consumption for the preceding three years, and the duty of $2\frac{1}{2}$ cents on fish fillets in excess of the quota, which was not bound under the former trade agreement, has now been bound against increase.

A change advantageous to Canada has been made in the arrangements for administration of the quota on these fish fillets. This is a trade in which Canada, Newfoundland, Iceland and Norway all have an interest. The main fishing season for Norway and Iceland is in the first half of the calendar year while the Canadian and Newfoundland fisheries are normally active during the second half. In the absence of any arrangement for allocation of the quota, there was a possibility that the year's quota might be largely filled by one group of countries to the exclusion of the other. Arrangements have now been made by agreement at Geneva to ensure an equitable division of the market by a provision that not more than 25 per cent of the annual quota may be filled during the first three months of the calendar year, not more than 50 per cent in the first six, not more 75 per cent in the first nine, and any part of the year's quota that has not been filled in previous quarters may be utilized in the final quarter of the year. In this way, it has been ensured that although fish caught early in the year will not be charged against the quota for subsequent months, any part of the quota unused during the early months can be carried forward to the later months, but no part of the quota for any year can be carried forward to a subsequent year. On fillets of other fresh fish the duty is reduced from $2\frac{1}{2}$ to $1\frac{1}{2}$ cents per pound.

The United States duty on herring, smoked or kippered, or in tomato sauce, packed in immediate containers weighing with contents more than 1 pound each, has been reduced from 15 to 10 per cent, and other fish in airtight containers has been bound at the existing rate of $12\frac{1}{2}$ per cent. This does not, however, apply to canned salmon, of which the United States ordinarily has a large exportable surplus, where the duty is bound at the existing rate of 25 per cent *ad valorem*. On sardines, neither skinned nor boned, the new reduced rate is to vary according to value being 44 per cent where the value is not over 13 cents per pound, 30 per cent where the value is over 13 but not over 18 cents per pound, 20 per cent where the value is over 18 but not over 23 cents per pound, and 15 per cent where the value is over 23 cents per pound.

On pickled or salted salmon the rate has been reduced from $12\frac{1}{2}$ per cent to 10 per cent.

On pickled or salted ground fish (cod, haddock, hake, pollock and cusk), neither skinned nor boned, the rate depends on the moisture content. Where the fish contains not more than 43 per cent moisture, the rate has been reduced from $\frac{5}{8}$ cent to $\frac{1}{2}$ cent per pound and where it contains more than 43 per cent moisture the rate has been reduced from $\frac{3}{4}$ cent to $\frac{1}{4}$ cent per pound. On pickled or salted ground fish, skinned or boned, the rate has been reduced from $1\frac{1}{2}$ cents to $1\frac{1}{4}$ cents per pound. On the so-called "full herring" pickled or salted and in containers containing each more than 10 pounds of herring, the rate of $\frac{1}{2}$ cent per pound has been bound and in containers containing less than 10 pounds of herring, the rate has been reduced from $\frac{3}{4}$ cent to $\frac{1}{2}$ cent per pound. Split herring has been bound at $\frac{1}{2}$ cent per pound. Pickled or salted mackerel in bulk or in containers weighing with contents more than 15 pounds each has been reduced from 1 cent to $\frac{1}{2}$ cent per pound, and when in containers not airtight weighing with contents not more than 15 pounds each, the rate has been reduced from 25 per cent to $12\frac{1}{2}$ per cent *ad valorem*. On alewives, a kind of river herring, the rate has been reduced from $\frac{5}{8}$ cent to $\frac{1}{2}$ cent per pound.

Smoked or kippered salmon has been reduced from 15 per cent to 10 per cent *ad valorem*. Smoked or kippered herring (hard dry smoked) has been reduced from $\frac{5}{8}$ cent to $\frac{1}{2}$ cent per pound, and other than hard dry smoked from $1\frac{1}{4}$ cents to 1 cent per pound.

Smoked or kippered herring, boned or not, has been reduced from $1\frac{1}{2}$ and 2 cents per pound respectively to a uniform rate of $1\frac{1}{4}$ cents per pound. Smoked or kippered ground fish have been reduced from $1\frac{1}{4}$ cents to 1 cent per pound, and smoked or kippered fillets of ground fish have been reduced from 2 cents to

1½ cents per pound, uniform with the quota rate on fresh or frozen fillets of ground fish. The so-called Alaska cod has been reduced from 12½ per cent to 10 per cent ad valorem. Canned razor clams have been reduced from 15 per cent to 10 per cent.

All the varieties of fish which were already free of duty have been bound duty free. These include sea herring and smelts, lobsters, fresh or canned, clams, oysters, and scallops.

In Benelux, the duty on lobsters and chilled fish not canned has been reduced from 20 to 15 per cent, and that on canned crustaceous species from 30 to 25 per cent. The duty on canned salmon and pilchards has been reduced from 25 to 20 per cent, and fresh, chilled, salted, dried or smoked fish, which were already free of duty, have been bound free up to a quota to be established on the basis of 150 per cent of prewar imports.

In France, the duty on fresh and frozen salmon has been bound at 10 per cent, that on canned salmon has been reduced from 30 per cent to 25 per cent, and that on canned lobster has been reduced from 15 per cent to 10 per cent.

In Brazil, there is a very substantial reduction in the duties on dry salt codfish, of which Canada is a substantial exporter. Before the Geneva negotiations the rate was 616 cruzeiros per metric ton plus several surtaxes. As a result of the Geneva negotiations the customs duty has been reduced to 200 cruzeiros per ton and one of the principal surtaxes, namely the consumption tax, formerly 200 cruzeiros per ton, is to be eliminated.

In Cuba also, there is a reduction in the duty on imports of dried codfish from Canada, the rate having been reduced from 5.50 pesos to 4.125 pesos per 100 kilograms. This reduction incidentally eliminates a former preference in favour of the United States.

In Chile, the duty on dried codfish is bound at 1 gold peso per kilogram.

Several substantial reductions of duty on fish have been accorded by Czechoslovakia. On salted herrings the rate is being reduced from 20 crowns to 14 crowns per 100 kilograms, while the rate on smoked herrings is bound at 70 crowns per 100 kilograms. The duty on canned salmon is reduced from 2,000 to 600 crowns per 100 kilograms, that on canned lobster from 2,000 to 1,000 crowns per 100 kilograms and the duty on sardines is being reduced from 2,000 to 600 crowns per kilograms. There is also a reduction in the duty on canned pilchards to 600 crowns per 100 kilograms if in oil and to 400 crowns if in tomato sauce.

In India and Pakistan, the duty on canned fish is being reduced from 30 per cent to 20 per cent.

Norway is itself an exporter of various species of fish, but has cut in half its duties on canned lobster and canned salmon, the reduction being from 1.50 kroner per kilogram to 0.75 kroner and from 0.60 kroner to 0.30 kroner per kilogram respectively. There is also a reduction from 0.40 kroner to 0.30 kroner per kilogram in the duties on salted salmon.

On the other hand, certain preferences on fish enjoyed by Canada in various Commonwealth markets have been reduced or eliminated.

In the United Kingdom, the preferential margin of ¾d. per pound on chilled or frozen salmon has been eliminated, and this product becomes duty free from all sources. On canned salmon the preferential margin has been reduced from 10 per cent to 5 per cent but the product remains free of duty from Canada.

In Australia, while the rate of duty on Canadian canned salmon remains at 1d. per pound, the most-favoured-nation rate has been reduced from 4d. to 2½d. per pound, reducing the preferential margin from 3d. to 1½d. per pound.

In New Zealand the tariff rate on canned salmon from Canada remains at 1½d. per pound while the most-favoured-nation rate has been reduced from 3d. to 2½d. per pound. The former surcharge of 9/40 of the duty has been

removed from both rates. Thus the margin of preference is being reduced by two-fifths, but the duties collected on imports from both Canada and non-Commonwealth countries are simultaneously being reduced.

In the British Colonies a reduction of 25 per cent in the margin of preference is provided on certain canned fish imported into Gambia, Sierra Leone, Malayan Union, Bahamas, British Guiana, Jamaica, Trinidad, and Fiji.

Fish Oils: The concessions obtained in the 1935 and 1938 Trade Agreements on sperm, shark and shark-liver oil are increased in the new Trade Agreement, and the United States tariff rates on these oils will now be: on crude sperm oil, $1\frac{1}{4}$ cents per gallon, on refined sperm oil $3\frac{1}{2}$ cents per gallon, on shark oil and shark-liver oil, including dogfish-liver oil, 5 per cent *ad valorem* and $\frac{3}{4}$ cent per pound Internal Revenue Tax.

In the Trade Agreement with Iceland, the United States duty on herring oil including pilchard was reduced by the maximum amount to $2\frac{1}{2}$ cents per gallon. This rate is confirmed and a reduction made in the Revenue tax from $1\frac{1}{2}$ cents to $\frac{3}{4}$ cent per pound.

CONCESSIONS ON MINERALS AND METALS

Non-metallic Minerals: The 1938 Trade Agreement reduced the duty on ground nepheline syenite from 30 to 15 per cent *ad valorem*. The United States Customs Court in 1942 (C.D. 685) ruled ground nepheline syenite to be free of duty as manufactured sand. The new Trade Agreement confirms this classification during the effective period of the agreement. The duty on crude feldspar of 25 cents per ton secured in the 1938 Trade Agreement is confirmed. This duty had been reduced from 50 cents to 35 cents per ton in the 1935 Trade Agreement. On ground feldspar there is a reduction in duty from 15 to 10 per cent. Previous to the 1938 Trade Agreement ground feldspar was dutiable at 30 per cent. The 1935 Trade Agreement reduced the duty on dead-burned basic refractory material from 30 to $27\frac{1}{2}$ per cent, which rate was further reduced to 20 per cent in the 1938 Trade Agreement; in the new Trade Agreement the rate is further reduced to 15 per cent. In the 1935 Trade Agreement the duty on talc valued at not more than \$12.50 per ton was reduced from 35 to 25 per cent *ad valorem*. In the 1938 Trade Agreement this duty was reduced to $17\frac{1}{2}$ per cent and the concession was applied to talc valued at not more than \$14 per ton. The new Trade Agreement reduces the duty on talc valued at not more than \$14 per ton to 10 per cent. The concessions on mica secured in the 1938 Trade Agreement are either extended or confirmed in the new Trade Agreement. On small sizes of untrimmed phlogopite mica the rate is reduced from 10 to 5 per cent. Previous to the 1938 Trade Agreement this duty had been 15 per cent. On phlogopite mica waste and scrap valued at not more than 5 cents per pound the reduction in duty from 25 to 15 per cent obtained in the 1938 Trade Agreement is confirmed. The duty on ground or pulverized mica was reduced from 20 to 15 per cent in the 1938 Trade Agreement, and this reduced rate is continued in the new Trade Agreement. The new Trade Agreement provides for maximum reductions in the duties on crude or crushed limestone, lime and hydrated lime. In the 1935 Trade Agreement the duty on crude or crushed limestone was reduced from 5 cents to $2\frac{1}{2}$ cents per 100 pounds. This rate was confirmed in the 1938 Trade Agreement and is now further reduced to $1\frac{1}{4}$ cents per 100 pounds. On lime, not specially provided for, the duty was reduced from 10 cents to 7 cents per 100 pounds in the 1935 Trade Agreement and to 5 cents per 100 pounds in the 1938 Trade Agreement. This rate is now reduced to $2\frac{1}{2}$ cents per 100 pounds.

On hydrated lime the new agreement accords a duty of 3 cents per 100 pounds. This compares with a rate of 6 cents per 100 pounds under the 1938 Trade Agreement, 8 cents per 100 pounds under the 1935 Trade Agreement and

12 cents per 100 pounds under the 1930 Tariff Act. In the 1938 Trade Agreement the duty on unmanufactured bentonite was reduced from \$1.50 to 75 cents per ton, and on manufactured bentonite from \$3.35 to \$1.62½ per ton. These reduced duties are continued in the new Trade Agreement. The duty on fire brick which was reduced from 25 to 15 per cent in the 1935 Agreement, and to 12½ per cent in the 1938 Agreement, is further reduced by the maximum to 6¼ per cent *ad valorem* in the new Trade Agreement. On ordinary brick the new Trade Agreement confirms the reduction in duty from \$1.25 to \$1 per 1,000 secured in the 1938 Agreement. The new Trade Agreement reduces the duty on cement, not specially provided for, from 10 to 5 per cent. This duty had been reduced from 20 to 10 per cent *ad valorem* in the 1938 Trade Agreement. On ground or crushed stone the 1938 Trade Agreement provided for a reduction in the duty from 30 to 15 per cent and the new agreement makes a further reduction to 10 per cent. The new Trade Agreement reduces the duty on corundum, emery, and garnets in grains from 1 cent to ½ cent per pound, and on wheels of corundum or silicon carbide from 20 to 10 per cent *ad valorem*. The maximum reduction in the duty on caustic calcined magnesite from 15/16 cent to 15/32 cent per pound is also secured. Binding on the free list is continued in the new Trade Agreement on unmanufactured asbestos, crude nepheline syenite, lignite, natural gas, gravel, stone, and sand of various kinds, radium and selenite. A new binding of duty-free entry is also secured on coal and coke.

Concessions on non-metallic minerals secured in countries other than the United States include the binding of the present Benelux duty of 2 per cent on carbon electrodes of 50 kilograms or over and 6 per cent on other carbon electrodes. Other concessions on carbon electrodes are reduction from 20 to 15 per cent in France, reduction from 40 to 32 crowns per 100 kilograms in Czechoslovakia, and the binding of duty-free entry in Norway. In Benelux the binding of duty-free entry of raw asbestos and mica in sheets or ground, and the present rate of 10 per cent *ad valorem* on artificial abrasives and porcelain insulators has been secured. In France duty-free entry of coal tar pitch is bound, and the duty on silicon carbide reduced from 15 to 10 per cent *ad valorem*. In Brazil a reduction in the duty on certain manufactures of asbestos from 9·24 cruzeiros to 6·47 cruzeiros per kilogram is provided in the new Trade Agreement. In Czechoslovakia crude asbestos is bound duty-free, and the duty of 10 crowns per 100 kilograms on silicon carbide is also bound.

Non-Ferrous Metals: Substantial tariff concessions have been obtained in several countries for Canadian exports of non-ferrous metals. On nickel in pigs and ingots the United States duty has been reduced by 50 per cent from 2½ cents to 1¼ cents per pound, on nickel bars and rods it has been reduced from 25 per cent to 12½ per cent *ad valorem*, and nickel ore, matte and oxide have been bound free of duty. In Benelux, nickel in primary forms has been bound free of duty. In France, nickel ores and matte have been bound free of duty, while on nickel in more advanced forms the rates have been bound or decreased. In China the rate on nickel has been reduced from 12½ per cent to 10 per cent *ad valorem*, in Czechoslovakia it has been bound free, and in Norway the rate on matte has been bound free.

On aluminum metal and alloys, the United States duty is reduced from 3 cents to 2 cents per pound, on aluminum scrap from 3 cents to 1½ cents per pound, and on plates from 6 cents to 3 cents per pound. Benelux has bound aluminum ingot, plate and scrap duty free. France has reduced its rate on aluminum ingot and scrap from 35 per cent to 21 per cent and on aluminum bars, wires, etc., from 30 to 15 per cent. In Chile the rate on aluminum bars and sheets is bound at 0·15 gold pesos per kilogram. China has reduced its rate on aluminum ingot and grains from 7½ per cent to 5 per cent and has

bound its rates on other aluminum items. Czechoslovakia and Norway have bound aluminum on their free lists. Smelted alumina (artificial corundum) has been bound free by Benelux.

On copper ore and refined copper the United States has bound free entry and is reducing the Internal Revenue Code Tax from 4 cents to 2 cents per pound. Benelux is binding free entry of copper in pigs and ingots, and France is binding free entry of copper ores, matte and ingots, with a number of reductions on the metal in other forms. Czechoslovakia, India, Pakistan and Norway are also binding free entry of crude copper and Czechoslovakia has reduced the duty on copper sheets by amounts varying according to thickness.

Concessions on lead were obtained from Benelux (where lead ore has been bound duty free), France (where lead ore is bound duty free and the duty on ingot has been reduced from 12 per cent to free), Brazil (where the rate on lead blocks, pigs, etc., is bound at 196 cruzeiros per gross ton), and China (where the rate on lead in pigs and bars has been reduced from 25 per cent to $22\frac{1}{2}$ per cent *ad valorem*).

Substantial concessions have been obtained on zinc. In the United States the rate of duty on zinc ores has been reduced from $1\frac{1}{2}$ to $\frac{3}{4}$ cents per pound and on blocks and pigs from $1\frac{2}{3}$ to $\frac{7}{8}$ cent per pound, while maximum reductions of 50 per cent have been made from the 1930 rates on zinc sheets, scrap, dross and skimmings. In Benelux, zinc ore and ingot are bound duty free. In France, the duty on zinc ingot has been reduced from 20 to 15 per cent, on bars, wires and shapes from 20 to 16 per cent, and on zinc oxide the rate has been bound at 20 per cent. China has bound its present rate of 15 per cent on zinc and spelter.

On cadmium, the United States had reduced its rate from $7\frac{1}{2}$ to $3\frac{3}{4}$ cents per pound, and a concession of a 50 per cent reduction has also been obtained from Brazil. Czechoslovakia has bound this metal duty free.

Cobalt ore and metal are bound free in the United States tariff. The ore has been bound free in France, and a concession has been obtained in Brazil of a 50 per cent reduction in the duties on cobalt metal.

On tungsten in various forms the United States has had a compound duty of 60 cents per pound plus rates of 25 to 50 per cent *ad valorem*. The specific rate has now been reduced from 60 to 42 cents per pound, and the *ad valorem* rates cut in half. Tungsten ores have also been bound free of duty in France.

On tantalum metal and alloy the United States duty has been reduced from 25 to $12\frac{1}{2}$ per cent. On magnesium metal, scrap, alloys, powder, sheets, wire, etc., the United States has made the maximum reduction of 50 per cent.

Ferrous metals: On pig iron and spiegeleisen the United States has bound the existing duty of 75 cents per ton, while the duty of 75 cents per ton on scrap iron and steel has been cut in half. There have been substantial reductions in the duty on ferromanganese and ferrochrome. On boron carbide the duty of $12\frac{1}{2}$ per cent has been cut in half. On hollow drill steel bars valued at 8 to 12 cents a pound, which are of importance to a Canadian producer, the rate, which was formerly 20 per cent with a minimum of $1\frac{5}{8}$ cents per pound, has been cut in half, the new rates being 10 per cent with a minimum of $\frac{7}{8}$ cent per pound. Iron and steel rails are bound at $\frac{1}{10}$ cent a pound, and fish plates have been reduced from $\frac{1}{4}$ to $\frac{1}{8}$ cent per pound.

CONCESSIONS ON CHEMICALS

The United States duty on acetic acid, containing more than 65 per cent of acetic acid, which was reduced from 2 cents to $1\frac{1}{4}$ cents per pound in the 1935 Trade Agreement and to 1 cent per pound in the 1938 Trade Agreement has now been further reduced to $\frac{3}{4}$ cent per pound. On acetic acid of a strength 65 per cent or less, reduced from $1\frac{3}{8}$ cents to $\frac{3}{4}$ cent per pound in the 1938 Trade

Agreement the rate is now reduced to $\frac{1}{2}$ cent per pound. A maximum reduction from $\frac{1}{2}$ cent to $\frac{1}{4}$ cent per pound has been made on crude calcium acetate. In the 1938 Trade Agreement the duty on crude calcium acetate was reduced from 1 cent to $\frac{1}{2}$ cent per pound. The duty on vinyl acetate and synthetic resins made therefrom, which was reduced from 6 cents per pound and 30 per cent *ad valorem* to 3 cents per pound and 15 per cent *ad valorem* in the 1935 Trade Agreement and confirmed in the 1938 Trade Agreement, is now further reduced to $1\frac{1}{2}$ cents per pound and $7\frac{1}{2}$ per cent *ad valorem*. Maximum reductions from 20 cents to 10 cents per pound in the duty on cobalt oxide secured in the 1935 Trade Agreement and continued in the 1938 Trade Agreement, and from 10 to 5 per cent *ad valorem* in the duty on Canada balsam secured in the 1938 Trade Agreement are confirmed in the new Trade Agreement. A maximum reduction from 10 to 5 per cent in the duty on gas black, including carbon black and acetylene black, is provided for in the new Trade Agreement. In the 1935 Trade Agreement the duty on acetylene black had previously been reduced from 20 to 15 per cent *ad valorem*. The duty on cedar-leaf oil is reduced from $12\frac{1}{2}$ to $7\frac{1}{2}$ per cent in the Geneva Agreement. This duty had been previously reduced from 25 to $12\frac{1}{2}$ per cent in the Trade Agreement between the United States and France. The 1938 Trade Agreement reduced the rate on packaged salt from 11 cents to 7 cents per 100 pounds and that on bulk salt from 7 cents to 4 cents per 100 pounds. These rates are further reduced by the maximum amount in the Geneva Agreement making the duty on packaged salt $3\frac{1}{2}$ cents per 100 pounds, and on crude salt 2 cents per 100 pounds. A reduction from \$4 to \$3.50 per ton has been secured on crude barytes but the duty on ground barytes remains unchanged. The new Trade Agreement reduces by the maximum amount the United States duties on acetic anhydride to $1\frac{3}{4}$ cents per pound, on ethyl alcohol to $7\frac{1}{2}$ cents per gal., on selenium dioxide and tellurium compounds to $12\frac{1}{2}$ per cent *ad valorem*, on aluminum hydroxide to $\frac{1}{4}$ cent per pound, on aluminum sulphate to $\frac{1}{10}$ cent per pound, on ammonium nitrate to $\frac{1}{2}$ cent per pound, on calcium carbide to $\frac{1}{2}$ cent per pound, on phthalic anhydride to $3\frac{1}{2}$ cents per pound and 20 per cent *ad valorem*, on naphthalene solidifying at or above 79 degrees centigrade to $1\frac{3}{4}$ cents per pound and 10 per cent *ad valorem*, on cresylic acid to $1\frac{3}{4}$ cents per pound and 10 per cent *ad valorem*, on explosives to $3\frac{1}{2}$ cents per pound and $22\frac{1}{2}$ per cent *ad valorem*, on drugs of animal origin to 5 per cent *ad valorem*, on ethyl acetate to $1\frac{1}{2}$ cents per pound. The Geneva Trade Agreement provides for the rebinding of free entry of a number of chemicals including sulphuric acid, calcium cyanamid, certain crude coal-tar products, sodium cyanide, drugs of animal origin, including fish livers, crude artificial abrasives, radium salts, and for new bindings of free entry of crude drugs of vegetable origin, of chemical fertilizers, of crude sodium sulphate, and of selenium and selenium salts.

Concessions secured on chemicals in countries other than the United States include a binding of duty-free entry of blacks in Benelux, a reduction in the duty on chemical fertilizers from 15 to 12 per cent *ad valorem* in France, a reduction from 10 to 8 per cent in the Cuban duty on calcium carbide involving the elimination of the preferential margin formerly granted to the United States, a binding of the duty of 40 crowns per 100 kilograms on lamp and acetylene black in Czechoslovakia, and a reduction from 36 to 30 per cent in the duty on penicillin entering India and Pakistan.

CONCESSIONS ON MANUFACTURED GOODS

Reference has already been made to concessions obtained in connection with primary products which have undergone a preliminary manufacturing process, such as newsprint paper and wood pulp, lumber and other wood products, metals and certain processed foods, etc.

On miscellaneous manufactured products, many substantial reductions have been made in the United States tariff. Thus, on the whole range of metal articles or wares, the rate of duty has been reduced from 45 per cent to 22½ per cent. On the "basket item" of machinery not elsewhere specified, the rate has been reduced from 27½ per cent to 15 per cent. On another "basket item", articles or wares composed wholly or in part of carbon or of graphite, the rate has been reduced from 30 per cent to 15 per cent. This is the item under which many articles manufactured of rubber substitutes are presently classified. On a wide range of machines and appliances employing an electrical element or device, such as motors, fans, electrical shavers, etc., the rate has been reduced from 27½ per cent to 15 per cent, and on electric stoves the reduction is from 17½ per cent to 10 per cent.

On rubber substitutes and synthetic rubber there is a reduction from 20 per cent to 10 per cent. Aircraft and parts are reduced from 30 per cent to 15 per cent. Pleasure boats valued at more than \$15,000 each will pay a duty of 15 per cent instead of the former 30 per cent, and the rate of 15 per cent, accorded in a previous trade agreement on pleasure craft valued at \$15,000 or less, is bound at the present level.

Rates have been reduced on a number of manufactures of wood in which Canada is interested. These have already been summarized under the heading of wood and manufactures thereof.

A wide range of equipment for exercise and play formerly dutiable at 30 per cent will henceforth be dutiable at 15 per cent, and the duty on ice skates and parts has been bound at the same rate.

Pipe organs and parts, formerly dutiable at 17½ per cent will now pay 15 per cent and the rate of duty on player actions and parts has also been reduced from 20 per cent to 15 per cent.

Binder twine and agricultural implements, already free of duty, are bound free. Cream separators valued at more than \$50 and not more than \$100 each, and parts thereof, formerly dutiable at 12½ per cent under the agreement with Finland, have been reduced to 6¼ per cent, the maximum reduction possible under the Trade Agreements Act. While parts of agricultural implements do not enjoy free entry into the United States if they are specifically named as being dutiable under other tariff items, many of them will benefit by reductions in the other items concerned. Thus the duties on nuts and bolts, rivets and hinges, have been cut in half and those on power transmission chains and parts when valued at less than 40 cents per pound have been reduced from 40 per cent to 30 per cent and when valued at more than 40 cents per pound have been reduced from 25 per cent to 15 per cent. Tires and inner tubes for agricultural implements, formerly dutiable at 25 per cent, will now pay 12½ per cent.

Certain alcoholic beverages have in the past constituted an important class of Canadian exports to the United States and on whisky the duty has been reduced from \$2.50 to \$1.50, a concession which is also of interest to the United Kingdom.

The new Trade Agreement provides for concessions in the United States duties on articles wholly or in chief value of fur including fur coats, fur collars and fur cuffs. The former rate of 50 per cent is now reduced to 37½ per cent in the case of articles of silver and black fox and to 25 per cent for articles of other furs.

A wide range of plastic articles are dutiable in the United States as manufactures of products having a binding agent of synthetic resin. The present Trade Agreement reduces the duty on these articles from 50 cents per pound and 40 per cent *ad valorem* to 35 cents per pound and 30 per cent *ad valorem*. On manufactures of cellulose acetate, the duty, which had been reduced from 80 to 40 per cent in the United States-French Trade Agreement, is further reduced to 20 per cent.

While the manufactured articles mentioned have been among those of greatest importance in former trade with the United States, extensive reductions on other items should give scope to Canadian producers for the establishment and development of new lines of production.

A number of concessions affecting manufactured items have been obtained through negotiations with countries other than the United States. In Benelux the rates on soaps, powder and toilet goods have been bound at 24 per cent. Synthetic rubber continues to enter duty free, rubber belting has been bound at 10 per cent, socks of silk and artificial silk have been bound at 24 per cent, and a number of agricultural implements of importance to Canada have been bound at a rate of 6 per cent. In the Belgian Congo, lamps and lanterns, already enjoying low rates of duty, have been bound at existing rates.

In France, synthetic rubber has been bound duty free. On rubber belting, the duty has been reduced from 25 per cent to 14 per cent. Many types of agricultural machinery, formerly dutiable at 20 to 25 per cent, have been reduced to 15 per cent, and combines have been reduced to 12 per cent. Cream separators and parts formerly dutiable at 25 per cent will pay 22 per cent. Domestic heating and cooking apparatus, formerly dutiable at 25 per cent, will pay 18 per cent. Porcelain insulators, formerly dutiable at 25 per cent, will pay 20 per cent. Ice skates, formerly dutiable at 25 per cent, will pay 20 per cent *ad valorem*. The duty on organs, church and cinema, has been reduced.

In India and Pakistan, the duty on stoves, kerosene and gasoline, has been reduced from 30 per cent to 20 per cent, and that on domestic refrigerators and parts has been reduced from 36 per cent to 30 per cent. The duty on aeroplanes and parts is bound at 3 per cent. Ploughs and parts, agricultural tractors and parts, hay presses and milking machines, already free of duty, have been bound free.

In Lebanon and Syria, a concession has been granted on rubber tires, the rate being bound at 15 per cent.

In Norway the rate on aircraft has been reduced from 24 per cent to 12 per cent.

In Brazil, agricultural implements have been bound duty free and the duty on sewing machines has been bound at 1.30 cruzeiros per kilogram.

In Chile, the rates on agricultural implements and parts are already low and have been bound at their existing levels. Similar concessions have been made on carbon electrodes and storage batteries.

In Cuba, a special concession has been granted on needles for machines where the rate has been reduced from 5 per cent to 4 per cent, eliminating a small preferential margin formerly enjoyed by the United States.

In China, the rates of duty were in general already low. Many of these rates have been bound. One rate of some interest to Canada is that on bronze powder which has been bound at 15 per cent.

In Czechoslovakia, the rate on synthetic rubber has been bound free, and that on driving belts of rubber has been bound at 2,000 crowns per 1,000 kilograms. Bicycle tires are bound at 1,500 crowns per 100 kilograms and inner tubes for other types of tires are bound at 2,000 crowns per 100 kilograms. On tire casings for vehicles other than bicycles, the rate has been reduced from 3,000 to 1,700 crowns per 100 kilograms. Canadian manufacturers may also benefit by a reduction in the rate on skis from 1,000 to 700 crowns per 100 kilograms.

Several preferential margins formerly enjoyed by Canadian producers of miscellaneous manufactured goods have been eliminated or reduced. In the United Kingdom, the margin on silk and artificial silk dresses has been eliminated but at the same time the protective duties imposed on Canadian products have also been reduced. The preferential margin on agricultural tractors has also been eliminated. In New Zealand, the preferential margins on adding and computing machines and refrigerator units for domestic type cabinets have been

eliminated, but there is no increase in the rate of duty on Canadian products. In South Africa, the preferential margin of 5 per cent on socks has been eliminated but that on silk and artificial silk stockings has been left unchanged.

Reductions in preferential margins on manufactured products imported into the United Kingdom cover certain machine tools and parts (where free entry is retained but the margin has been reduced from 20 per cent to 15 per cent), electric stoves and heating apparatus (where free entry has been retained but the margin has been reduced from 15 to 10 per cent). Cash registers from Canada will continue to enter the United Kingdom free of duty but the preferential margin has been reduced from 15 per cent to 10 per cent. On cash register parts the preferential margin has been reduced from 20 per cent to 10 per cent, Canadian products remaining duty free. On welding machinery, Canadian products remain free but the most-favoured-nation rate has been reduced from 20 per cent to 15 per cent. On paper face and hand towels the most-favoured-nation rate has been reduced from 16 $\frac{2}{3}$ per cent to 10 per cent, Canadian products remaining free.

In Australia, Canadian preferential margins have been reduced from 20 per cent to 10 per cent on typewriters, from 20 per cent to 15 per cent on ribbons, from 17 $\frac{1}{2}$ per cent to 10 per cent on felt base floor covers, from 27 $\frac{1}{2}$ per cent to 20 per cent on electric stoves and elements, from 32 $\frac{1}{2}$ per cent to 20 per cent on electric refrigerators and parts, from 20 per cent to 15 per cent on bandsaws, from 3d. to 2d. per pound on car chassis unassembled, from 2 $\frac{1}{2}$ d to 1 $\frac{1}{2}$ d per pound on truck chassis unassembled, and from 3d. to 2d. per pound on chassis assembled. On vehicle parts, rates of duty have been reduced for both Commonwealth and non-Commonwealth countries with no change in existing margins. Canada benefits by a slight reduction in the most-favoured-nation rate on gears, since this is an item on which Canada has not in the past enjoyed a preferential rate. On toys imported into Australia, the most-favoured-nation rate including primage has been reduced from 70 per cent to 50 per cent while the rate to Canada has been reduced from 25 per cent to 20 per cent, involving a reduction from 35 per cent to 30 per cent in the preferential margin.

CANADIAN CONCESSIONS TO OTHER COUNTRIES

The tariff treatment to be accorded by Canada to goods, the produce of the negotiating countries above named, is set forth in the Canadian schedule to the General Agreement on Tariffs and Trade, designated "Schedule V" in the multi-lateral instrument.

Schedule V (Parts I and II) consists of some 1,050 items or sub-items; of these 590 provide for reductions in M.F.N. tariff below existing rates and about 460 for the binding or consolidation of M.F.N. rates at present effective. The B.P. rates are reduced directly in respect of some 100 item or sub-items, and indirectly in respect of some 50 items or sub-items (in cases where the new M.F.N. rates are lower than existing B.P. rates). As compared with the present tariff structure, the adoption of the duties specified in the Schedule means, in the case of the Canadian Tariff, the elimination of the preference in 94 items or sub-items.

Schedule V provides for one increase in duty, viz.: in the preferential rate on in-plate under tariff item 383 (b). This is accompanied by a reduction in the most-favoured-nation rate.

Part II of Schedule V relates solely to the British Preferential column in the Canadian Tariff and segregates those items in which concessions were made in favour of various Commonwealth countries. Each reduction in the preferential rate necessitated a corresponding or compensatory reduction in the rate applicable to favoured-nations since, under the provisions of the Charter and the General Agreement, no existing preferential margin could be increased and no new such margin could be created.

Following in order the commodity-group divisions of the Customs Tariff of Canada, the more important concessions included in Parts I and II of Schedule V to the General Agreement may be summarized as follows:

Agricultural Products: Concessions by Canada in respect of agricultural products reflect concessions secured in various countries on the like or similar goods, a general outline of which has been given. In this field, and as regards the United States in particular, Canada has continued to apply as widely as possible a basic principle followed in working out the 1938 Agreement with that country, namely: That wherever possible, *identical* duties should prevail in the two countries. Thus in Schedule V, Canadian duties specified on the following products will "match" those now to prevail in the United States: live cattle (1½ cents); live hogs (1 cent); beef and veal (3 cents); baby chicks (2 cents); eggs in shell (3½ cents); cheese (3½ cents); barley (7½ cents); oats (4 cents); rye (6 cents); hay (\$1.25); straw (50 cents); red clover seed (2 cents); alsike clover seed (2 cents); alfalfa seed (2 cents); and timothy seed (½ cent).

Apart from identical ratings of which these above are illustrative, important reductions in the Canadian duties on agricultural products include the following: certain canned meats, other than beef or pork, from 30 per cent to 20 per cent; cocoa butter, from 3 cents to 2½ cents; coffee, green, from 3 cents to 2 cents; tea, from 8 cents to 6 cents; potato starch and flour, from 2 cents to 1½ cents; bulk salt, from 4 cents to 3 cents; prepared cereal foods, packaged, from 25 per cent to 20 per cent; and Indian corn, from 10 cents to 8 cents.

Of significance to Canadian consumers are the substantial reductions effected on certain fresh and dried fruits not produced in this country. Oranges, hitherto free during a part of the year but dutiable at 35 cents per cubic foot otherwise, are accorded free entry, as also are dried prunes, fresh grapefruit and table grapes (*Vitis Vinifera* species). The most-favoured nation duty on raisins is reduced from 4 cents to 3 cents per pound.

Items in the Canadian tariff of very great importance to Canadians, either as producers or consumers, are those covering the importation of all the more common kinds of fresh fruits and vegetables. This tariff group comprises a considerable number of items, and a precise understanding of its nature can be reached only by reference to the detailed classifications and duties set forth in Schedule V, Part I. The new tariff treatment may, however, be summarized as follows: The system at present prevailing, whereby seasonal protection to Canadian growers is afforded by means of advances in invoice values immediately before or during the period of domestic production, is replaced by a scheme of *specific duties on a seasonal basis*, with provision in most instances for a revenue duty (10 per cent *ad valorem*) to be applied whenever the specific duty indicated in the Schedule is not levied. Canada has, therefore, at Geneva taken advantage of a proviso in the 1938 Agreement with the United States, whereby she reserved the right to substitute for the "valuation method" a system of seasonal specific duties. It is believed that the duties now provided will reserve for the Canadian producer his position as principal supplier in his own market during his own season, at the same time giving to consumers greater access to imported fruits and vegetables during those periods of the year when the domestic product is not readily available, if at all.

In the field of processed fruits and vegetables, reductions are effected on canned mushrooms, from 20½ per cent to 15 per cent; on pickled vegetables, from 32½ per cent to 22½ per cent; on vegetable juices, sauces, and mustards, from 27½ to 20 per cent in the m.f.n. rate and from 15 to 12½ per cent in the B.P. rate; and on frozen vegetables, from 25 to 20 per cent. Canned peaches are reduced from 3½ to 2½ cents per pound; canned apricots, pears, and pine-apples, from 3 to 2 cents; and jellies, jams, marmalades, etc., from 3¾ cents to

$3\frac{1}{4}$ cents under the m.f.n. tariff and from 2 cents to $1\frac{1}{2}$ cents under the B.P. Tariff. Nuts of all kinds (other than peanuts) not further processed than shelled will bear a uniform rate of 1 cent per lb.; and cocoanuts are reduced from \$1 to 75 cents per one hundred (depending on route of shipment) to 50 cents. There are restrictions in duty on a wide range of field and garden seeds, certain milk foods, and various kinds of nursery or florist stock. Included in this tariff group are also the items covering fruit juices of all kinds, in respect of which rates are changed as follows: lime, orange, lemon, and passion fruit juices, from 25 per cent to 10 per cent; pineapple juice, from 15 per cent to 10 per cent; and juices not otherwise provided for, including blends, from 15 per cent to 10 per cent. Grapefruit juice is bound at the rate in the existing Agreement with the United States, viz., 15 per cent.

Fisheries Products: Reflecting concessions gained by Canada in various countries for products of her fisheries, are reductions in the Canadian tariff, the more important of which follow: halibut, fresh, pickled or salted, from 1 cent to $\frac{1}{2}$ cent; anchovies, sardines, and pilchards, packed in oil or otherwise—various reduced rates, including a reduction to $1\frac{1}{2}$ cents on the ordinary 8-ounce box; herring (not including kippered herring) in sealed containers, from 30 per cent to 25 per cent; kippered herring in sealed containers, from $27\frac{1}{2}$ to $17\frac{1}{2}$ per cent; and fish, prepared or preserved, n.o.p. (including lobsters and shell fish) from $27\frac{1}{2}$ per cent to $22\frac{1}{2}$ per cent. Canned salmon is bound in rate at $27\frac{1}{2}$ per cent; and fresh lobsters are put on the free list.

Sugar and Its Products: No reductions are effected in the favoured-nation rates on raw or refined sugar but the incidence of the existing duties is bound against increase in the event of a re-wording of the classifications. In this general group, sugar candy and sugar confectionery, including sweetened gums, candied nuts, custard and jelly powders, sweetened breads, cakes, etc., are reduced under both tariffs: the B.P. rate from $\frac{1}{2}$ cent plus 15 per cent to 15 per cent, and the m.f.n. rate from $\frac{1}{2}$ cent plus 30 p.c. to 25 p.c.

Tobacco and Its Products: The favoured-nation duties on unmanufactured tobacco are reduced as follows: Turkish types: from 40 cents to 30 cents per pound on unstemmed and from 60 cents to 40 cents on stemmed; other types: from 40 cents to 20 cents on unstemmed and from 60 cents to 30 cents on stemmed. The present duty on cigars of \$3.50 per pound plus 25 per cent is reduced to \$1.75 plus 15 per cent; that on cut tobacco, from 95 cents to 80 cents; and duties on cigarettes are lowered under both tariffs; under the preferential from \$3.50 to \$2 plus 15 per cent, and under the m.f.n. tariff, from \$3 per pound plus 15 per cent to \$2 plus 15 per cent.

Spirituous Liquors, Wines, etc.: Under the new Agreement, the duties on spirits, both preferential and favoured-nation, are reduced by varying amounts. The existing rates on whisky of \$5 and \$6 per proof gallon, become \$4.50 and \$5 respectively; those on gin, of \$5 and \$10, become \$4.50 and \$5, respectively; those on rum, of \$5 and \$7, become \$4.50 and \$6, respectively. The British preferential rate of \$5 on brandy is reduced to \$4; and all brandy under the favoured-nation tariff will now bear duty of \$4 per proof gallon, as compared with existing rates of \$5 on Cognac and Armagnac and \$10 on other brandies. Liqueurs, at present \$5 and \$6, become dutiable at \$4.50 under both tariffs. The favoured-nation rate on Angostura bitters is reduced from \$10 to \$5 per proof gallon. Reductions under both tariffs will apply to spirits and strong waters, n.o.p. The reduction in duty on rum is of special interest to Cuba; those on brandy and liqueurs, to France; and that on gin, to the Netherlands. Of significance to France also are graduated reductions on champagnes and sparkling wines (e.g.: quart sizes—from \$7.44 to \$5 per dozen bottles), as well as a reduction from 55 cents to 20 cents per gallon on various still wines; and the

application of the wine-rate to vermouth up to 28 per cent proof content, heretofore dutiable under all tariffs at 80 per cent. As a consequence of the negotiations with France, the favoured-nation rate on alcoholic perfumes in small containers is reduced to the level of the preferential rate, 30 per cent; and that on such perfumes in bulk to \$5 per gallon plus 30 per cent.

Pulp, Paper, Books, etc.: In this group, numerous Canadian items providing for free entry or low duties on periodical publications, tourist literature, and books are bound in the Schedule. Reductions in both the British Preferential and favoured-nation rates are effected on labels, tags, tickets, etc., from $22\frac{1}{2}$ per cent and $27\frac{1}{2}$ per cent to $17\frac{1}{2}$ per cent and $22\frac{1}{2}$ per cent, respectively; on bank notes, bonds and similar commercial forms, from $22\frac{1}{2}$ per cent and $27\frac{1}{2}$ per cent to $17\frac{1}{2}$ per cent and $22\frac{1}{2}$ per cent, respectively; on greeting and similar cards, from 20 per cent and $29\frac{1}{4}$ per cent to 15 per cent and 25 per cent, respectively; on ruled, boxed and coated paper, from 20 per cent and $27\frac{1}{2}$ per cent to $17\frac{1}{2}$ per cent and 25 per cent, respectively; and on papeteries and manufactures of paper n.o.p., from 20 per cent and $27\frac{1}{2}$ per cent to $17\frac{1}{2}$ per cent and 25 per cent, respectively. Reductions in the favoured-nation rates will apply also in respect of roofing and shingles of saturated felt, from 25 per cent to $22\frac{1}{2}$ per cent; on paper bags, from 30 per cent to $22\frac{1}{2}$ per cent; on wall-paper, from 30 per cent to $22\frac{1}{2}$ per cent; on wrapping paper from 25 per cent to $22\frac{1}{2}$ per cent; on cigarette papers in tubes or packages, from $29\frac{1}{4}$ per cent to 20 per cent; on containers of fibreboard or paperboard, from 1 cent per pound but not less than 25 per cent to $\frac{4}{5}$ cent but not less than 20 per cent; and on advertising and printed matter, n.o.p., from $12\frac{1}{2}$ cents per pound but not less than $27\frac{1}{2}$ per cent to 10 cents per pound but not less than 25 per cent.

Chemicals, Drugs, Paints, etc.: About a score of tariff items in this group which are at present free of duty are bound in Schedule V and almost as many more with rates not exceeding 10 to $12\frac{1}{2}$ per cent are similarly bound against increase during the life of the new Agreement. Commodities on which the favoured-nation rate is reduced include the following: Oxalic acid, from 20 per cent to 10 per cent; butyl alcohol, n.o.p., from 25 per cent to 20 per cent; various sodium compounds, from 15 per cent to $12\frac{1}{2}$ per cent; crude salt cake, from $\frac{3}{4}$ cent to $\frac{1}{4}$ cent per pound; stearic acid, from $17\frac{1}{2}$ per cent to $12\frac{1}{2}$ per cent; non-alcoholic chemicals or preparations for spraying, disinfecting, etc., from 20 per cent to $12\frac{1}{2}$ per cent; castile soap, from 2 cents to 1 cent per pound; vegetable glue, from 35 per cent to $27\frac{1}{2}$ per cent; edible gelatine, from 35 per cent to 25 per cent; mucilage and adhesive paste, from 25 per cent plus $2\frac{1}{2}$ cents to 20 per cent plus $2\frac{1}{2}$ cents; non-alcoholic perfumery, hair oils, skin lotions, etc., from 30 per cent to 25 per cent; manufactures of pyroxylin plastics, n.o.p., from $27\frac{1}{2}$ per cent to 25 per cent; motion-picture films, negatives, from $27\frac{1}{2}$ per cent to 10 per cent; regenerated cellulose, and cellulose acetate, in sheets, etc., from 30 per cent to 25 per cent; dry red lead, antimony oxide, zinc oxide, etc., from 15 per cent to $12\frac{1}{2}$ per cent; rough stuff, fillers and dry colours, from 20 per cent to $17\frac{1}{2}$ per cent; ground and liquid paints, n.o.p., from 25 per cent to 20 per cent; putty, from $27\frac{1}{2}$ per cent to $22\frac{1}{2}$ per cent; various natural gums, from 10 per cent to free; printing ink, from $17\frac{1}{2}$ per cent to 15 per cent; olive oil, n.o.p., from 17 per cent to 10 per cent; various essential oils, natural, from $7\frac{1}{2}$ per cent to free; whale oil, from 30 per cent to 15 per cent; and castor oil, from varying rates to free. Two of the most important "basket items" in the entire group are reduced: acids, n.o.p. of a kind not produced in Canada, from 20 per cent to 15 per cent; and chemicals and drugs, n.o.p., not produced in Canada, from $17\frac{1}{2}$ per cent to 15 per cent. Some five items in this large and varied tariff group are reduced under both preferential and favoured-nation tariffs; all medicinal and pharmaceutical preparations compounded of more than one substance, liquid, from 20

per cent and $27\frac{1}{2}$ per cent to $17\frac{1}{2}$ per cent and $22\frac{1}{2}$ per cent, respectively; toilet soap, from 20 per cent and $29\frac{1}{4}$ per cent to 15 per cent and $22\frac{1}{2}$ per cent, respectively; soap powders and soap, n.o.p., from 20 per cent and 25 per cent to 15 per cent and 20 per cent, respectively; glue, n.o.p., from $17\frac{1}{2}$ per cent plus 2 cents and 25 per cent plus 5 cents to 15 per cent plus 2 cents and $22\frac{1}{2}$ per cent plus 5 cents, respectively; and varnishes, lacquers, etc., from 15 cents per gallon plus 10 per cent and 15 cents plus 20 per cent to 15 cents plus 5 per cent and 15 cents plus 15 per cent, respectively.

Crude vegetable oils of cotton seed, palm and palm kernel, peanut and cocoanut, when imported to be refined for edible purposes, are bound at the rate of 10 per cent hitherto applicable; and in connection therewith, cotton seed, palm kernels, peanuts and copra (cocoanut meat)—all raw materials for the crushing industry—are placed on the free list.

Earthen and Glassware, Etc.: In this group there are several reductions in rates that will be of especial interest to Canadian housewives; moreover, the more noteworthy of these relate to goods of which this country is not an important producer. The favoured-nation rate on all tableware of china, porcelain, or semi-porcelain is reduced from 35 per cent to 25 per cent; rates of $27\frac{1}{2}$ per cent and 25 per cent applicable at present to a wide range of glass products, etc. (including glass tableware, cutglass ware, opal glassware, bottles, lamp-chimneys and machine-made tumblers) are consolidated in a flat rate of $22\frac{1}{2}$ per cent; window glass of all kinds is reduced from 15 per cent to 10 per cent, and plate glass in panes or sheets not exceeding seven square feet each is reduced from 20 per cent to 10 per cent. Other reductions in duty under the favoured-nation column include: manufactures of clay or cement, n.o.p., from 20 to $17\frac{1}{2}$ per cent; earthen roofing tiles, from $32\frac{1}{2}$ per cent to 20 per cent; earthen churns, crocks, etc., from 30 per cent to 20 per cent; all sanitary earthenware, from $27\frac{1}{2}$ per cent to 25 per cent; dead-burned or sintered magnesite, from $27\frac{1}{2}$ to 15 per cent; marble, sawn or sand-rubbed, from 20 per cent to 10 per cent; all manufactures of asbestos, n.o.p., from 20 per cent to $12\frac{1}{2}$ per cent; electric light and arc carbons, from $32\frac{1}{2}$ per cent plus 20 cents lb. to 25 per cent plus 10 cents; incandescent bulbs, from $7\frac{1}{2}$ per cent to 5 per cent; sheet glass, from 25 per cent to 20 per cent; plate glass, n.o.p., from 30 per cent to 25 per cent; mirrors of glass, from 30 per cent to $22\frac{1}{2}$ per cent; stained or ornamental windows, from $27\frac{1}{2}$ per cent to 15 per cent; and spectacles and eyeglass lenses, from $24\frac{3}{4}$ per cent to $22\frac{1}{2}$ per cent. A few products in this group are reduced under both preferential and favoured-nation tariffs: drain pipe, sewer pipe, earthen blocks, etc., from 20 per cent and 30 per cent to 15 per cent and $22\frac{1}{2}$ per cent, respectively; earthenware wall tile, from 20 per cent and 30 per cent to 15 per cent and 25 per cent, respectively; and earthenware, n.o.p., (including ordinary table earthenware), from 20 per cent and 35 per cent to $17\frac{1}{2}$ per cent and 25 per cent respectively. Crude asbestos is placed on the free list.

Various Metals and their Products: The principle of reciprocity in tariff treatment so far as concerns the United States in particular has been applied over one broad sector of this highly important Metals group: the primary and rolling mill products of aluminum. Concessions in duties have been made by both countries (as well as by several other negotiating countries) and the Canadian rates have been reduced on the more common forms of aluminum as follows: aluminum pigs, blocks, ingots, slabs, wire-bars, etc., from $27\frac{1}{2}$ per cent to 2 cents per lb.; bars, rods, plates, sheets, strip, etc., from $27\frac{1}{2}$ per cent to 3 cents per lb.; angles, channels and other rolled, drawn or extruded sections and shapes, from $27\frac{1}{2}$ per cent to $22\frac{1}{2}$ per cent; wire and cable, whether or not twisted or stranded, from $27\frac{1}{2}$ per cent and 30 per cent to $22\frac{1}{2}$ per cent; pipes and tubes, from $27\frac{1}{2}$ per cent to $22\frac{1}{2}$ per cent; kitchen or household

hollow-ware of aluminum, from $27\frac{1}{2}$ per cent to $22\frac{1}{2}$ per cent; and manufactures of aluminum, n.o.p., from $27\frac{1}{2}$ per cent to $22\frac{1}{2}$ per cent. In zinc products, the existing free entry has been bound in respect of zinc dust, strip, sheets and marine-boiler plates; and manufactures of zinc, n.o.p. have been reduced in rate from 20 per cent to $17\frac{1}{2}$ per cent. Wire of all metals and kinds (other than iron or steel or aluminum) is reduced from 30 per cent to 20 per cent; such wire, if covered, from $27\frac{1}{2}$ per cent to 20 per cent; wire cloth or screen, from $22\frac{1}{2}$ per cent to 20 per cent; and all manufactures of brass or copper, n.o.p., from $24\frac{3}{4}$ per cent to 20 per cent. In the precious-metal field, reductions apply under both preferential and favoured-nation tariffs. As regards articles consisting wholly or in part of sterling or other silverware, n.o.p. and all manufactures of gold or silver, n.o.p. from existing rates of 20 per cent and $32\frac{3}{4}$ per cent to $17\frac{1}{2}$ per cent and $27\frac{1}{2}$ per cent, respectively. Reductions under both tariffs apply also in the case of nickel-plated ware and gilt or electro-plated ware, from duties of $17\frac{1}{2}$ per cent and 30 per cent to 15 per cent and $22\frac{1}{2}$ per cent, respectively. Toilet articles of all kinds of which the manufactured component of chief value is sterling silver are reduced from two existing favoured-nation rates of $33\frac{3}{4}$ per cent and $37\frac{1}{2}$ per cent to a flat rate of 30 per cent. A very wide range of so-called "jewellery findings" of metal will be dutiable at 20 per cent instead of 25 per cent as at present and many types and kinds of wire or strip used in the jewellery industry are reduced from 20 per cent to 15 per cent. Watch cases are reduced under both tariffs: from existing rates of 20 per cent and $32\frac{1}{2}$ per cent to rates of 15 per cent and 25 per cent.

In the ferro-alloy group, the favored-nation rate on ferro-silicon containing more than 8 per cent by weight of silicon but less than 60 per cent, is reduced from 1½ cents to 1 cent per lb.

Iron and Steel, and Products Thereof: In any tariff negotiations to which Canada is a party, all forms of iron and steel and articles produced therefrom play a vital part. That this was the case at Geneva is illustrated by the simple fact that the Schedule to the Agreement includes no fewer than 350 items relating to this tariff group, some 10 of which appear also in Part II of the Schedule. Many of the items are included in the Schedule for the purpose of binding the existing tariff treatment but reductions in duty (chiefly in the favored-nation rate only) are numerous and important.

Considering first the primary forms of iron and steel, up to and including rolling-mill products, it will be seen from a perusal of Schedule V that tin-plate of a class or kind not made in Canada is reduced from 15 per cent to 10 per cent; and that tin-plate, n.o.p., will be subject to a duty of 15 per cent on imports under both tariffs as soon as the necessary legislation to that end can be enacted. Flat steel of rust-, acid- or heat-resistant qualities are reduced from $17\frac{1}{2}$ per cent to $12\frac{1}{2}$ per cent and structural shapes if punched, drilled or further manufactured than rolled or cast, from 35 per cent to 30 per cent. Other reductions provided in respect of basic iron and steel forms include: castings of iron, from $22\frac{1}{2}$ per cent to 20 per cent; castings of steel, from $22\frac{1}{2}$ per cent to 20 per cent; forgings of steel, n.o.p. from $27\frac{1}{2}$ per cent to 25 per cent; axles and bars for railway vehicles, from 25 per cent to $22\frac{1}{2}$ per cent; axles and bars for other vehicles, n.o.p., from 30 per cent to $22\frac{1}{2}$ per cent; cast iron pipe, from \$10.80 to \$10 per ton; pipes and tubes, welded or seamless, not more than $10\frac{1}{2}$ inches in diameter, from 25 per cent to $22\frac{1}{2}$ per cent; fittings and couplings for pipes and tubes, from 25 per cent to $22\frac{1}{2}$ per cent; springs, for the running gear of other than railway vehicles, n.o.p., from 30 per cent to $27\frac{1}{2}$ per cent; silent and roller chain, from 20 per cent to 15 per cent; and steel chain, n.o.p., from 30 per cent to 25 per cent.

All farm implements and machinery at present entitled to entry free of duty are bound against imposition of duty. Ore and rock crushers, rock drills and

similar mining and quarrying equipment are reduced from $17\frac{1}{2}$ per cent to 15 per cent; and machinery, logging cars, cranes, etc. for use in logging operations, from 15 per cent to $12\frac{1}{2}$ per cent.

In office machinery and equipment, "parts" of typewriters are reduced from 20 per cent to 15 per cent; book-keeping, calculating and invoicing machines, from $12\frac{1}{2}$ per cent to 10 per cent; adding machines, from 20 per cent to $17\frac{1}{2}$ per cent; and "parts" for adding machines from 20 per cent to 15 per cent.

While the favoured-nation rate of 20 per cent on vacuum cleaners is bound against increase, the duties on many articles of household equipment are reduced; electric or other refrigerators, from 25 per cent to $22\frac{1}{2}$ per cent; washing machines, from 25 per cent to $22\frac{1}{2}$ per cent; clothes wringers, from 25 per cent to $22\frac{1}{2}$ per cent; lawn mowers, from 30 per cent to 25 per cent; hollow-ware of iron or steel, coated with vitreous enamel, from 30 per cent to $22\frac{1}{2}$ per cent; kitchen and dairy hollow-ware, including milk cans, from 25 per cent to 20 per cent; bicycles, from $27\frac{1}{2}$ per cent to 25 per cent; children's carriages, sleds, etc., from 30 per cent to $22\frac{1}{2}$ per cent; all kinds of apparatus designed for cooking or for heating buildings, from 25 per cent to $22\frac{1}{2}$ per cent; gas burners and mantles, from $27\frac{1}{2}$ to $22\frac{1}{2}$ per cent; lamp shades and holders, and electric light fixtures and appliances, n.o.p., from $27\frac{1}{2}$ per cent to $22\frac{1}{2}$ per cent. Other electrical equipment to which reductions will apply includes the following: arc and incandescent lamps, from 30 per cent to 25 per cent; electric torches or flashlights, from $27\frac{1}{2}$ per cent to $22\frac{1}{2}$ per cent; electric telegraph apparatus, from 25 per cent to 20 per cent; electric telephone apparatus, from 25 per cent to $22\frac{1}{2}$ per cent; electric wireless or radio apparatus, from 25 per cent to 20 per cent; dynamos, generators and transformers, from 25 per cent to $22\frac{1}{2}$ per cent; electric motors, electric insulators, and all electric apparatus, n.o.p. from 25 per cent to $22\frac{1}{2}$ per cent.

Other reductions in the favoured-nation rates applicable to commodities the chief component of which is steel include the following: electric dental engines, from 30 per cent to $22\frac{1}{2}$ per cent; fire engines and fire fighting apparatus, from 30 per cent to 25 per cent; table knives and forks, from 30 per cent to 25 per cent; all other knives, from 30 per cent to 20 per cent; spoons, from 30 per cent to 25 per cent; scissors and shears, from 30 per cent to 20 per cent; razors, from 30 per cent to $27\frac{1}{2}$ per cent; safety razor blades, from 25 per cent to 20 per cent; many hand tools, from $27\frac{1}{2}$ per cent to 25 per cent; baths, basins, closets, etc. of steel, coated or not, from 25 per cent to 20 per cent; railway locomotives, n.o.p., from 30 per cent to 25 per cent; locomotives and cars for mining and sawmill operations: if made in Canada, from 30 per cent to 20 per cent and if not made in Canada from $12\frac{1}{2}$ per cent to free; railway cars, from $27\frac{1}{2}$ per cent to $22\frac{1}{2}$ per cent; aircraft, from 20 per cent to 15 per cent and aircraft engines, from $17\frac{1}{2}$ per cent to 15 per cent; water pumps for domestic purposes, from 25 per cent to $22\frac{1}{2}$ per cent; buckles and clasps of all kinds (not being jewellery) from $27\frac{1}{2}$ per cent to 25 per cent; and household, office or store furniture, substantially of metal, from $27\frac{1}{2}$ per cent to 25 per cent.

A very few items in the Iron and Steel group appear, as stated above, in Part II of the Schedule, and reductions in both preferential and favoured-nation rates include these: woven or welded wire fencing and wire cloth or netting, from 20 per cent and 30 per cent to $17\frac{1}{2}$ per cent and 25 per cent, respectively; cars, n.o.p., and wheel-barrows, trucks, scrapers, etc., from 15 per cent and $27\frac{1}{2}$ per cent to 10 per cent and $22\frac{1}{2}$ per cent, respectively; and slide, hookless or zipper fasteners, from 30 per cent and $37\frac{1}{2}$ per cent to 25 per cent and 30 per cent, respectively.

The present Canadian duties on motor vehicles are bound against increase.

Wood and Manufactures thereof: This group is represented in Schedule V by items which are few in number but which cover an important field, both import and domestic. The favoured-nation rate on hardwood flooring is reduced from $17\frac{1}{2}$ per cent to $12\frac{1}{2}$ per cent; certain plywood, from $22\frac{1}{2}$ per cent to 20 per

cent; skis and fittings, from 30 per cent to $22\frac{1}{2}$ per cent; fishing rods, from 25 per cent to 20 per cent; picture and photograph frames from $27\frac{1}{2}$ per cent to 20 per cent; and furniture substantially of wood from $32\frac{1}{2}$ per cent to $27\frac{1}{2}$ per cent.

Textile Products of all Kinds: Although represented in Schedule V by only some 125 tariff items, the Textile Group of the Canadian tariff has contributed one of the most vitally-important sections of the entire General Agreement between Canada and other negotiating countries. Negotiations in respect of textiles and textile products—whether as regards the primary forms of yarns and filaments, fabrics of all kinds, or made-up garments and articles—were conducted not only with the United States, Belgium and Luxembourg, the Netherlands, France, China and Czechoslovakia, but with the United Kingdom; all these countries have in the past been important suppliers of the Canadian market and the particular position of the United Kingdom in this respect is evidenced by the fact that, out of a total of about 125 scheduled items, no fewer than 30 appear in Part II (as well as in Part I) of the Schedule to the Agreement. The items listed cover textile products of cotton, vegetable fibres other than cotton, wool, rayon and other synthetic fibres other than cotton, wool, rayon and other synthetic fibres, and silk, including admixtures of any or all of these.

The favoured-nation rate is reduced on certain cotton yarns, including cords and twines, from 20 per cent plus 3 cents per pound to $17\frac{1}{2}$ per cent plus 3 cents; on cotton sewing thread on spools, from $22\frac{1}{2}$ per cent to 20 per cent; and on mercerized cotton yarns, from $22\frac{1}{2}$ per cent to 20 per cent. Both rates on cotton-thread yarns (Item 522e) are reduced, from $7\frac{1}{2}$ per cent to 5 per cent and 10 per cent, respectively.

Woven fabrics of cotton, not bleached (Item 523) are reduced under the favoured-nation tariff from $17\frac{1}{2}$ per cent plus 3 cents per pound to 15 per cent plus 3 cents. No reduction in the preferential rate is accorded on this item. Seamless cotton bags are similarly reduced, from $27\frac{1}{2}$ per cent to $22\frac{1}{2}$ per cent.

In bleached, mercerized, printed and coloured cotton fabrics, reductions apply under both tariffs. In respect of bleached or mercerized fabrics (Item 523a) existing preferential and favoured-nation rates of 20 per cent and 20 per cent plus 3 cents per pound, respectively, become $17\frac{1}{2}$ per cent and $17\frac{1}{2}$ per cent plus 3 cents. On all printed, dyed or coloured cottons (Item 523b) the existing preferential rate of 20 per cent is reduced to $17\frac{1}{2}$ per cent; and favoured-nation rates on such fabrics are reduced as follows:

(i) Fabrics valued over 80 cents per pound: to $17\frac{1}{2}$ per cent plus 3 cents;
 (ii) Fabrics valued at 50 cents to 80 cents per pound: to $22\frac{1}{2}$ per cent plus 3 cents; (iii) Fabrics valued at less than 50 cents per pound: to 25 per cent plus $3\frac{1}{2}$ cents; (iv) Fabrics known as denims: to $17\frac{1}{2}$ per cent plus 3 cents; the reduction in respect of each sub-item being one of $2\frac{1}{2}$ per cent in the *ad valorem* rate, but with no change in the specific duty.

Cotton cretonnes and gabardines (Items 523j and 523k) are reduced under both tariffs, from $12\frac{1}{2}$ per cent and $27\frac{1}{2}$ per cent plus $3\frac{1}{2}$ cents per pound, respectively, to 10 per cent and 25 per cent plus $3\frac{1}{2}$ cents per pound.

Cotton bobbinet, plain, in the web, is reduced under the favoured-nation tariff only, from 25 per cent to $12\frac{1}{2}$ per cent.

In the case of embroideries, lace, nets, etc. of cotton (Item 529) the preferential rate is reduced from 20 per cent to 15 per cent, and the m.f.n. rate from $27\frac{1}{2}$ per cent plus $3\frac{1}{2}$ cents per pound to 20 per cent plus 3 cents. Coloured cotton laces for use in Canadian industries (Item 530) are reduced under the m.f.n. tariff only, from $17\frac{1}{2}$ per cent to 15 per cent.

The most important "basket item" of the cotton group, covering clothing and wearing apparel and all manufactures of cotton not separately classified (Item 532), on which the existing rates are 25 per cent preferential and 30 per

cent favoured-nation, has been subdivided to provide (a) reduced preferential rates of $22\frac{1}{2}$ per cent on cotton curtains and impregnated cotton fabrics and of 20 per cent on cotton bags, not seamless and (b) a favoured-nation rate of 25 per cent on clothing, wearing apparel and manufactures of cotton, n.o.p., of $27\frac{1}{2}$ per cent on cotton curtains and impregnated cotton fabrics, and of $22\frac{1}{2}$ per cent on cotton bags. This new subdivision of the item means the elimination of preference on that part thereof which covers clothing and manufactures of cotton, n.o.p. Cotton handkerchiefs, presently dutiable at 15 per cent and 30 per cent, respectively, will now bear rates of $12\frac{1}{2}$ per cent and $27\frac{1}{2}$ per cent.

Twine for *baling* farm produce is put on the free list and the favoured-nation rate on linen thread is reduced from $22\frac{1}{2}$ per cent to $17\frac{1}{2}$ per cent.

Jute yarns (other than singles) and twines (Item 537e), are reduced under both tariffs from 25 per cent and 30 per cent to 20 per cent and 25 per cent, respectively.

The free entry at present accorded under the preferential tariff to certain fine linens and linen articles under sub-items (a) and (b) of Tariff Item 540 is continued and the favoured-nation rates thereon are reduced in respect of sub-item (a), from 30 per cent plus $3\frac{1}{2}$ cents per pound to $22\frac{1}{2}$ per cent plus 3 cents and in respect of sub-item (b), from 30 per cent plus $3\frac{1}{2}$ cents to 20 per cent plus 3 cents. As regards sub-items (c) and (d) of the same item, reductions affect both preferential and favoured-nation tariffs, the new preferential rate on each of these sub-items being 15 per cent plus 3 cents per pound and the new favoured-nation rate, 20 per cent plus $3\frac{1}{2}$ cents.

Reductions in favoured-nation rates, only, apply to linen fire hose, from $32\frac{1}{2}$ per cent to 30 per cent; to all clothing, wearing apparel and manufactures, n.o.p., wholly or in part of vegetable fibres other than cotton (Item 548), from 30 per cent to 25 per cent; and on woven dress linens (Item 548a).

In the wool group, an important provision is for the free entry under both tariffs of carpet wools. Hair, curled or dyed, is reduced from $17\frac{1}{2}$ per cent to 15 per cent and nets made of human hair from 30 per cent to 15 per cent. Changes in duties on wool yarns are three in number. On the "n.o.p." yarns under Item 551 the preferential rate is reduced by 1 cent per pound to 15 per cent and 5 cents and the favoured-nation rate from 20 per cent plus 30 cents per pound to $17\frac{1}{2}$ per cent plus 20 cents. Manufacturing yarns (Item 551a) are reduced under the m.f.n. tariff only, from $17\frac{1}{2}$ per cent plus 15 cents per pound to 15 per cent plus 15 cents, and worsted yarns for six-ounce fabrics (Item 551d) in exactly the same amount.

In the wool fabric group, six-ounce cloths imported for furnishing (Item 554) are reduced under both tariffs by $2\frac{1}{2}$ per cent, with no change in the specific duty, the resulting being 15 per cent plus $7\frac{1}{2}$ cents per lb. and 20 per cent plus $17\frac{1}{2}$ cents. Similarly, four-ounce fabrics imported for finishing in Canada (Item 554c) are reduced—but only under the m.f.n. tariff—from 25 per cent plus $17\frac{1}{2}$ cents per lb. to 20 per cent plus 15 cents.

The chief item in the wool fabric group is Item 554b, under which enters the largest part of the total imports of woollen and worsted cloths and on which the existing preferential rate is $22\frac{1}{2}$ per cent plus 12 cents per lb. and the favoured-nation rate, 35 per cent plus 30 cents, the former having a proviso to the effect that the maximum duty per pound of cloth shall not exceed fifty cents. Under the new Agreement, the preferential rate on the item is reduced to 20 per cent plus 12 cents per lb. (with the maximum duty proviso unchanged); the favoured-nation rate is reduced to $27\frac{1}{2}$ per cent plus 30 cents and, as respects fabrics weighing not more than eight ounces to the square yard, there is now provided under the m.f.n. tariff a maximum duty of \$1 per pound. Other favoured-nation rates reduced include those on billiard cloth, melton cloth and slipper cloth.

On the main "finished goods" item in the wool group (Item 555), which covers in general imports of clothing, wearing apparel and articles made from

woven wool fabrics, as well as all non-specified manufactures composed wholly or in part of wool, the preferential rate is reduced from 30 per cent to 25 per cent and the favored-nation rate from $32\frac{1}{2}$ per cent on women's and children's outer garments and from 40 per cent plus $32\frac{1}{2}$ cents per lb. on all other clothing and manufacturer goods, to $27\frac{1}{2}$ per cent. Wool blankets (Item 552) are reduced under the m.f.n. tariff only, from 30 per cent plus 25 cents per lb. to 25 per cent plus 20 cents; and cotton blankets from 20 per cent plus 5 cents per lb. to $17\frac{1}{2}$ per cent plus 5 cents.

Yarns of synthetic fibres or filaments appear only in Part I of the Schedule; that is, they are affected only in respect of the favored-nation rate. All single and plied yarns (whether viscose, acetate, cupromonium, etc.) are reduced from the present rate of 30 per cent but not less than 28 cents per lb. to one of 25 per cent but not less than 24 cents per lb. So-called "spun rayon" yarns (Item 558f) are reduced in an identical manner.

In accord with a reduction on silk fabrics "in the gum," imported for the purpose of being finished in Canada (Item 560), there is a reduction in the m.f.n. rate on two silk fabric items: the rate on Item 560a is reduced from 36 per cent plus 10 cents per yard to 30 per cent plus $7\frac{1}{2}$ cents; and that on Item 560b, from $29\frac{1}{4}$ per cent to 25 p.c.

One of the most important items in the textile group is that relative to fabrics woven from synthetic yarns or filaments (Item 561), imports under which have come in former years from a dozen countries but of which normally the United Kingdom was the principal source of supply. The existing preferential rate is an *ad valorem* only, of $27\frac{1}{2}$ per cent; whereas the favoured-nation rate is a compound one: 36 per cent plus 40 cents per lb. The Agreement provides for a preferential rate of $22\frac{1}{2}$ per cent and an m.f.n. rate of $27\frac{1}{2}$ per cent plus 40 cents.

Ribbons of pure silk and of synthetic silk, and necktie silks, are reduced under the favored-nation tariff, the two former from $27\frac{5}{8}$ per cent to 25 per cent and the latter from 18 per cent to 15 per cent. Embroideries, lace and nets n.o.p. (i.e.—as distinct from those wholly of cotton referred to earlier in this statement), dutiable under Item 565 at $22\frac{1}{2}$ per cent preferential, and $32\frac{1}{2}$ per cent or $27\frac{5}{8}$ per cent favoured-nation, are reduced to $17\frac{1}{2}$ per cent and $22\frac{1}{2}$ per cent, respectively.

Under the existing Agreement with the United States, silk clothing and wearing apparel is dutiable at 30 per cent and other manufactured silk products n.o.p. (Item 567) at 30 per cent plus 7 cents per ounce. The new Agreement sets a flat rate of 30 per cent on the entire item, with no change in the existing preferential rate of $27\frac{1}{2}$ per cent. As respects similar clothing and articles of synthetic silk (Item 567a), the existing preferential rate is 25 per cent while the m.f.n. rate on clothing and apparel is $32\frac{1}{2}$ per cent and on other products, $31\frac{1}{2}$ per cent plus $4\frac{1}{2}$ cents, per ounce. In the new Agreement, "split" rates are discontinued; the preferential rate on the entire item will be 20 per cent and the favored-nation rate $27\frac{1}{2}$ per cent.

Products of the knitting industry—whether of cotton, wool, silk, artificial silk or admixtures thereof—are dutiable for the most part under tariff item 568, on which the preferential rate is 20 per cent, and the favoured-nation rate either 35 per cent. (if clothing or apparel) or 35 per cent plus 25 cents per lb. (if articles other than clothing). In the new Agreement, the B.P. rate is unchanged, and the favoured-nation rate is 35 per cent, without any specific component. The closely related item (568a) covering hosiery has two sub-items; wool hosiery, with preferential and m.f.n. rates of 20 per cent plus 30 cents per dozen pairs and $32\frac{1}{2}$ per cent plus \$1.35 per dozen pairs, respectively, the latter (only) of which is reduced to $27\frac{1}{2}$ per cent and \$1.20 per dozen pairs; and other hosiery, with preferential and m.f.n. rates of 20 per cent (no specific duty) and 20 per cent plus \$1 per dozen pairs, the latter (only) of which is reduced to 20 per cent plus 75 cents per dozen pairs.

Other reductions in favoured-nation duties in the textile group include the following: church vestments, from $15\frac{3}{4}$ per cent to 10 per cent; hats, n.o.p. (Item 569 (v)) from 30 per cent plus \$1.50 per dozen to $27\frac{1}{2}$ per cent plus \$1 per dozen; wool berets, from 27 per cent plus $58\frac{1}{2}$ cents per dozen to $22\frac{1}{2}$ per cent plus 50 cents per dozen; and hats, hoods or shapes of fur-felt, or of wool-and-fur felt, on which the preferential rate is reduced from $22\frac{1}{2}$ per cent to $17\frac{1}{2}$ per cent and the m.f.n. rate from 30 per cent to $22\frac{1}{2}$ per cent.

Existing preferential rates on cutpile cocoa mats, and on cocoa mats or matting n.o.p., of 3 cents per square foot and $7\frac{1}{2}$ cents per square yard, respectively, are reduced to $2\frac{1}{4}$ cents and $6\frac{3}{4}$ cents, with reductions in the m.f.n. rates. Other textile floor-coverings which appear in the Schedule are carpets and linoleums. The former enter under Item 572, with a preferential duty of 30 per cent and a favoured-nation rate of 30 per cent plus $7\frac{1}{2}$ cents per square foot; these are reduced to 25 per cent preferential and 25 per cent plus 5 cents, favoured-nation. The favoured nation rate on oilcloth and linoleum (Item 573) is reduced from 30 per cent to $27\frac{1}{2}$ per cent.

Hides, skins and leather goods: Free entry under tariffs is continued in respect of hides, skins and plates (Items 599, 601 and 602). A reduction is provided on fur skins wholly or partially dressed (Item 603) from $13\frac{1}{2}$ per cent to $12\frac{1}{2}$ per cent and free entry is accorded to karakul skins, formerly dutiable under this Item at rates of 10 per cent and $13\frac{1}{2}$ per cent, respectively. Sheepskin or lambskin leather, further finished than tanned, is reduced under the m.f.n. tariff only, from 25 per cent to $22\frac{1}{2}$ per cent; and all belting leather as well as leather further finished than tanned, n.o.p. (Item 604) from 20 per cent to $17\frac{1}{2}$ per cent favoured-nation only. The favoured-nation rate only on sole leather (Item 604b) is reduced from 25 per cent to $22\frac{1}{2}$ per cent; genuine reptile leathers, from 15 per cent to $7\frac{1}{2}$ per cent; and pig and morocco leathers (Item 605a), from 25 per cent to 20 per cent. Leather produced from East India tanned kip (Item 606) bears at present a preferential rate of 20 per cent plus 4 cents per square foot and a favoured-nation rate of 25 per cent plus 4 cents; these are reduced to 20 per cent plus 2 cents and 25 per cent plus 2 cents, respectively. The m.f.n. rate on leather belting (Item 609) drops from 25 per cent to $22\frac{1}{2}$ per cent. The existing rates on leather garments (Item 611b) of 20 per cent and 30 per cent become $17\frac{1}{2}$ per cent and $27\frac{1}{2}$ per cent respectively; and those on harness and saddlery (Item 612) of $17\frac{1}{2}$ per cent and $22\frac{1}{2}$ per cent become 15 per cent and 20 per cent respectively.

Leather footwear (Item 611a) bears duties at present of $22\frac{1}{2}$ per cent and 30 per cent preferential and favoured-nation, and these are reduced in Schedule V to rates of 20 per cent and $27\frac{1}{2}$ per cent, respectively. Canvas shoes with rubber soles also under Item 611a, dutiable at present at $22\frac{1}{2}$ per cent and 35 per cent will in future carry the same ratings as those attaching to leather footwear, namely: 20 per cent and $27\frac{1}{2}$ per cent. All non-specified manufactures of leather (Item 613) with rates, preferential and favoured-nation, of 20 per cent, and 25 per cent will be dutiable at rates of $17\frac{1}{2}$ per cent and $22\frac{1}{2}$ per cent, respectively.

Rubber and Products: The favoured-nation rate of $22\frac{1}{2}$ per cent on all non-enumerated manufactures of rubber (Item 618) is reduced to 20 per cent and that on belting, n.o.p. (i.e.—all other than leather belting, Item 610) is reduced from 25 per cent to 20 per cent. Both tariffs are reduced on rubber clothing and clothing made from waterproofed cotton fabrics (Item 619a), from 25 per cent and 30 per cent respectively, to $22\frac{1}{2}$ per cent and $27\frac{1}{2}$ per cent.

Miscellaneous commodities: Scores of commodities not particularly related to any tariff group but of significance in the daily life of Canadians appear in Schedule V with reduced rates. Illustrative of the reductions are the following: anthracite coal, from 50 cents per ton to free; bituminous coal, from 75 cents to 50 cents; pianos and organs, from 25 per cent to $22\frac{1}{2}$ per cent; musical instru-

ments of all kinds not specially enumerated, from $24\frac{3}{4}$ per cent to $17\frac{1}{2}$ per cent; brass band instruments, and all manufactures of fur, n.o.p., from 30 per cent to 25 per cent; braces and suspenders, from 27 per cent to $22\frac{1}{2}$ per cent; umbrellas, parasols, etc., from 27 per cent to 25 per cent; jewellery for adornment of the person, from 35 per cent to $32\frac{1}{2}$ per cent under the m.f.n. tariff and from 25 per cent to $22\frac{1}{2}$ per cent under the preferential tariff; buttons of vegetable ivory, from 30 per cent plus 10 cents per gross to 25 per cent plus 10 cents; other buttons, from 30 per cent plus 5 cents per gross to 25 per cent plus 5 cents; toilet and dressing combs, from 25 per cent but not less than \$1.50 per gross to 20 per cent but not less than \$1.44 per gross; brushes of all kinds, n.o.p., from 30 per cent to 25 per cent; pens and penholders, from 25 per cent to $22\frac{1}{2}$ per cent; lead pencils, from 35 per cent to 30 per cent; tobacco pipes of all kinds, from $29\frac{1}{4}$ per cent to $22\frac{1}{2}$ per cent; cigar and cigarette holders, from $29\frac{1}{4}$ per cent to 25 per cent; cigar and cigarette cases, smokers' sets, tobacco pouches, etc., from $29\frac{1}{2}$ per cent to 25 per cent; motion-picture films, positives, one and one-eighth inches and over (Item 657a) from $2\frac{1}{4}$ cents to $1\frac{1}{2}$ cents per linear foot; photographic dry plates, from $27\frac{1}{2}$ per cent to 25 per cent; grinding wheels, blocks or stones and manufactures of emery or of artificial abrasives (Item 670), from $22\frac{1}{2}$ per cent to 20 per cent; sponges of marine production, from $17\frac{1}{2}$ per cent to 15 per cent; roofing granules, whether or not colored or coated, from 20 per cent to 15 per cent; hominy grits, corn grits and hominy feeds, from 20 per cent to 10 per cent; mineral and medicinal waters, natural, from 20 per cent to free; potassic nitrate of soda, n.o.p., from 20 p.c. to free; certain products or articles of quartz, from 20 per cent to free if not further processed than cut into slabs and ground to shape and from 20 per cent to 10 per cent if fully manufactured; woven tire cord fabric chiefly or synthetic fibres or filaments, coated with rubber composition, from $17\frac{1}{2}$ per cent plus $3\frac{1}{2}$ cents per lb. to 15 per cent; wire-drawing dies, in the rough, from 10 per cent to 5 per cent and oiticica oil, from 20 per cent to free.

Trunks, valises, bags and baskets of all kinds (Item 622) and musical instrument cases, fancy boxes and cases of all kinds, portfolios, satchels, etc. (Item 623), are reduced under both tariffs: the preferential rate from 15 per cent to $12\frac{1}{2}$ per cent and the favoured-nation rate from 30 per cent to $22\frac{1}{2}$ per cent.

A considerable change in the tariff treatment of containers (under Item 710) is provided for in the Schedule. The existing duties of 10 per cent and 18 per cent on usual coverings containing goods, not machinery, subject to an *ad valorem* duty, when not included in the invoice value of the goods (710b) are reduced to free and $7\frac{1}{2}$ per cent, respectively; and the existing duties of 5 per cent and 15 per cent on machinery coverings (710bb) are reduced to the same rates of free and $7\frac{1}{2}$ per cent.

APPENDIX B

PRINCIPAL TARIFF CONCESSIONS AFFECTING CANADIAN
PRODUCTS OBTAINED THROUGH THE GENERAL
AGREEMENT ON TARIFFS AND TRADE

(PREPARED IN THE
COMMERCIAL RELATIONS AND FOREIGN TARIFFS DIVISION,
DEPARTMENT OF TRADE AND COMMERCE)

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* Statement includes only items valued at \$50,000 or more in either year.

NOTE REGARDING STATISTICS

The statistics shown for the United States and Empire countries are those of the country in question; for other countries Canadian statistics have been used. The classifications of the items in the latter are not always identical with the descriptions of the items in the tariffs of the countries in which the concessions were obtained. To this extent the trade figures must be regarded as approximations.

The statistics are generally for the last prewar year. In some cases (i.e. Czechoslovakia and China) an earlier period prior to 1938 was taken in order to obtain a period of greater normalcy.

STATEMENT 1—Imports into the United States from Canada of principal* dutiable items on which concessions were obtained under the General Agreement on Tariffs and Trade, calendar years 1939 and 1946, showing rates of duty

(* Statement includes only items valued at \$50,000 or more in either year)

U.S. Statistical Description (abbr.)	U.S. Tariff Item	Tariff Rates			Imports into U.S. from Canada	
		Smoot-Hawley (i.e. 1930 rate)	1946 rate	Geneva agreement rate	1939	1946
					(thousands)	of dollars)
<i>Chemicals, Oil and Paints—</i>						
Acetic acid, more than 65% by wt.	1	2¢ lb.	1¢ lb.	3¢ lb.	60	327
Vinyl acetate, polymerized, and synthetic resins.	2	6¢ lb. plus 30%	3¢ lb. plus 15%	13¢ lb. plus 7½%	173	228
Butyl alcohol.	4	6¢ lb.	6¢ lb.	3¢ lb.	51	51
Vitamins and vitasterols.	5	25%	25%	12½%	140	108
Medicinal preparations of animal origin.	5	25%	12½%	12½%	74	74
Synthetic resins made from vinyl acetate.	11	4¢ lb. plus 30%	3¢ lb. plus 15%	13¢ lb. plus 7½%	87	87
Calcium acetate.	16	1¢ lb.	1¢ lb.	1¢ lb.	74	74
Calcium carbide.	16	1¢ lb.	1¢ lb.	1¢ lb.	74	87
Drugs of animal or vegetable origin, n.e.s., advanced in value.	34	10%	10%	5%	32	230
Glycerine, crude.	42	1¢ lb.	8/10¢ lb.	4/10¢ lb.	8	114
Herring oil.	52	5¢ gal., plus 3¢ lb. IRC tax	2½¢ gal., plus 1½¢ lb. IRC tax.	13¢ gal., plus 3¢ lb. IRC tax.	148	148
Castor oil.	53	3¢ lb.	3¢ lb.	13¢ lb.	63	63
Coconut oil.	54	2¢ lb., plus 5¢ lb. IRC tax.	2¢ lb., plus 3¢ lb. IRC tax.	1¢ lb., plus 3¢ lb. IRC tax.	128	128
Cedar-leaf oil.	58	25%	12½%	7½%	72	72
Barytes ore, crude.	67	\$4.00 ton	\$4.00 ton	\$3.50 ton	269	269
Acetylene black.	71	20%	10%	5%	404	404
Synthetic iron oxide and iron hydroxide pigments.	73	20%	15%	15%	96	96
Sodium carbonate, calcined (soda ash).	81	1¢ lb.	1¢ lb.	1¢ lb.	84	84
<i>Earths, earthenware, and glassware—</i>						
Fire brick, n.e.s.	201a	25%	12½%	61%	22	83
All other bricks, (including common building).	201b	\$1.25 M	\$1.00 M	\$1.00 M	9	104
Limestone, crude or crushed.	203	5¢ 100 lbs.	2½¢ 100 lbs.	1¢ 100 lbs.	37	38
Lime, n.s.p.f.	203	10¢ 100 lbs.	5¢ 100 lbs.	2½¢ 100 lbs.	60	248
Crude Feldspar.	207	50¢ ton	25¢ ton	25¢ ton	52	128
Untrimmed phlogopite mica.	208f	15%	10%	5%	5	57

Talc, ground, not over \$14.00 ton.....	209	35%	17½%	10%	53
Graphite or plumbago, natural, amorphous..	213	10%	5%	5%	117
Articles of carbon, n.s.p.f.....	216	45%	30%	15%	487
<i>Metals and manufactures of—</i>					
Iron and steel scrap.....	301	75¢ ton	75¢ ton ⁽¹⁾	37½¢ ton ⁽¹⁾	145
Spiegel Eisen.....	301	75¢ ton	75¢ ton	75¢ ton	18
Ironmanganese, less than 4% carbon.....	302d	1½ lb. on manganese content.	1½ lb. on manganese content.	15/16¢ lb. on manganese content.	309
Ironmanganese, not less than 4% carbon....	302d	1½ lb. on manganese content.	1½ lb. on manganese content.	11/16¢ lb. on manganese content.	2,583
Ferrosilicon, less than 30% silicon.....	302i	2¢ lb. on silicon content	1¢ lb. on silicon content	1¢ lb. on silicon content	261
Ferrochrome, 3% or more of carbon.....	302k	2½¢ lb. on chromium content.	1½¢ lb. on chromium content.	¾¢ lb. on chromium content.	252
Alloys used in mfr. of steel, n.e.s.....	302o	25%	12½%	12½%	791
Ferrocerium.....	302q	\$2.00 lb. plus 25%	\$2.00 lb. plus 25%	\$1.00 lb. plus 1½%	79
Boiler plate, iron or steel, valued not over 3¢ lb.....	307	5/10¢ lb.	35/100¢ lb.	10% (min. 0.175¢ lb.)	82
Telegraph, telephone wire, of copper.....	316a	35%, plus 4¢ lb. IRC tax on copper content.	35%, plus 4¢ lb. IRC tax on copper content.	17½%, plus 2¢ lb. IRC tax on copper content ⁽²⁾ .	72
Rails of iron or steel.....	322	1/10¢ lb.	1/10¢ lb.	1/10¢ lb.	114
Railway fishplates.....	322	¼¢ lb.	¼¢ lb.	¼¢ lb.	80
Hollow or flatware, of iron or steel, n.s.p.f.....	339	40%	40%	20%	109
Hollow or flatware of base metal, n.e.s.....	339	40%	40%	20%	53
Electrotype plates, engraved, for printing....	341	25%	25%	15%	56
Needles, tape, knitting, and other, n.s.p.f....	343	45%	30%	30%	129
Electric generators and parts, n.e.s.....	353	35%	25%	15%	67
Electric motors, n.e.s.....	353	35%	25%	15%	50
Radio apparatus and parts.....	353	35%	25%	15%	870
Electrical goods and parts, n.e.s.....	353	35%	25%	15%	341
Electrical machines and parts, n.s.p.f.....	353	35%	25%	15%	528
Automobile parts.....	369c	25%	25%	12½%	2,700
Airplanes.....	370	30%	30%	15%	4
Aircraft parts (other than engines).....	370	30%	30%	15%	7
Pleasure boats (not more than \$15,000 each)...	370	30%	15%	7	566
Parts of steam locomotives.....	372	15%	15%	7	1,613
Internal combustion engines.....	372	27½%	17½%	10%	273
Parts of internal combustion engines.....	372	27½%	17½%	10%	52
Other sawmill and wood working machinery, n.e.s.....	372	27½%	27½%	15%	59
Machinery and carts, n.e.s. (not agricultural)	372	21½%	27½%	15%	63
Aluminum metal and alloys, crude.....	374	4¢ lb.	3¢ lb.	2¢ lb.	767
Aluminum scrap.....	374	4¢ lb.	3¢ lb. ⁽¹⁾	1½¢ lb. ⁽¹⁾	1,039
Aluminum plates, sheets, etc.....	374	7¢ lb.	6¢ lb.	3¢ lb.	9,341
Magnesium, metallic and scrap.....	375	40 lb.	40¢ lb.	20¢ lb.	742
Copper in rolls, sheets and rods.....	381	2½¢ lb., plus 4¢ lb. IRC tax on copper content.	2½¢ lb., plus 4¢ lb. IRC tax on copper content.	1½¢ lb., plus 2¢ lb. IRC ⁽²⁾ tax on copper content.	119
					111
					192

(1) Duty suspended until June 30, 1948.

(2) Tax on copper suspended from April 30, 1947, for a period of two years.

U.S. Statistical Description (abbr.)	Tariff Rates			Imports into U.S. from Canada	
U.S. Tariff Item	Smoot-Hawley (i.e. 1930 rate)	1946 rate	Geneva agreement rate	1939 (thousands)	1946 (of dollars)
<i>Metals and manufactures of—</i>					
Brass rods, sheets, strip, etc.	4¢ lb., plus 4¢ lb. IRC tax on copper content.	4¢ lb., plus 4¢ lb. IRC tax on copper content	2¢ lb., plus 2¢ lb. (1) IRC tax on copper content.	73	
Nickel in pigs, ingots, etc.	1¢ lb.	2½¢ lb.	1½¢ lb.	24,458	38,301
Zinc-bearing ores.	1½¢ lb. on zinc content	3¢ lb. on zinc content (2)	1½¢ lb. on zinc content	2,890	
Zinc, old and worn out.	1½¢ lb. on zinc content	3¢ lb. on zinc content (2)	1½¢ lb. on zinc content	85	
Zinc, dress and skimmings	1½¢ lb. on zinc content	3¢ lb. on zinc content (2)	1½¢ lb. on zinc content	184	
Zinc, blocks, pigs, or slabs.	1½¢ lb. on zinc content	3¢ lb. on zinc content (2)	1½¢ lb. on zinc content	427	14,195
Iron and steel manufactures, not plated, n.s.p.f.	45%	45%	22½%	19	113
Metal articles, not plated with platinum, gold, etc., n.s.p.f.	45%	45%	22½%	9	87
<i>Wood and manufactures of—</i>					
Timber, round, for spars or wharves	\$1.00 M. bd. ft.	50¢ M. bd. ft.	50¢ M. bd. ft.	308	
Boards, fir and hemlock, rough.	\$1.00 M. bd. ft., plus IRC tax.	50¢ M. bd. ft., plus IRC tax.	25¢ M. bd. ft., plus IRC tax.	114	
Boards, fir and hemlock, dressed.	\$3.00 M. bd. ft., plus IRC tax.	\$1.50 M. bd. ft., plus IRC tax.	75¢ M. bd. ft., plus IRC tax.	2,216	
Boards, Douglas and other fir, rough.	\$3.00 M. bd. ft., plus IRC tax.	\$1.50 M. bd. ft., plus IRC tax.	75¢ M. bd. ft., plus IRC tax.	565	
Boards, Douglas fir and other fir, dressed.	\$3.00 M. bd. ft., plus IRC tax.	\$1.50 M. bd. ft., plus IRC tax.	75¢ M. bd. ft., plus IRC tax.	1,703	
Boards, Hemlock, rough.	\$1.00 M. bd. ft., plus IRC tax.	50¢ M. bd. ft., plus IRC tax.	25¢ M. bd. ft., plus IRC tax.	241	
Boards, Hemlock, dressed.	\$3.00 M. bd. ft., plus IRC tax.	\$1.50 M. bd. ft., plus IRC tax.	75¢ M. bd. ft., plus IRC tax.	1,192	
Boards, Spruce.	\$1.00 M. bd. ft., plus IRC tax.	50¢ M. bd. ft., plus IRC tax.	25¢ M. bd. ft., plus IRC tax.	19,391	
Boards, Spruce, Western White.	\$1.00 M. bd. ft.	50¢ M. bd. ft.	25¢ M. bd. ft.	7,943	
Boards, Pine, Northern White, and Norway.	\$1.00 M. bd. ft.	50¢ M. bd. ft.	25¢ M. bd. ft.	3,249	
Boards, Pine, other.	\$3.00 M. bd. ft., plus IRC tax.	\$1.50 M. bd. ft., plus IRC tax.	75¢ M. bd. ft., plus IRC tax.	3,928	
Boards, Larch.	\$1.00 M. bd. ft., plus IRC tax.	50¢ M. bd. ft., plus IRC tax.	25¢ M. bd. ft., plus IRC tax.	183	
Plywood, red cedar.	\$3.00 M. bd. ft., plus IRC tax.	\$1.50 M. bd. ft., plus IRC tax.	75¢ M. bd. ft., plus IRC tax.	1,153	
Veneers of birch or maple.	40%	10%	20%	21	445
Veneers of wood, other.	20%	5%	10%	5	132
Blocks or sticks, bolts, hubs.	10%	5%	5%	106	415
Barrels, casks (other than beer barrels)	15%	7½%	7½%	2	276

Bentwood furniture.....	412	42½%	42½%	30%	.....	56
Wood furniture, n.s.p.f. (except chairs).....	412	40%	25%	12½%	4	82
Paint-brush handles.....	412	35½%	20%	15%	61	197
Broom and mop handles.....	412	33½%	20%	15%	2	85
Manufactures of wood or bark, n.e.s.....	412	33½%	33½%	25%	90	611
Canoes and canoe paddles.....	412	33½%	20%	15%	2	170
Vehicles, wood, other than horsedrawn (includes trailers, sleds, etc.).....	412	33½%	33½%	16½%	5	50
<i>Sugar, molasses, and manufactures of—</i>						
Molasses, not for extraction of sugar nor for human consumption.....	502	.....	.....	.....	129	372
Maple sugar.....	503	.....	.....	.....	1,524	1,298
Maple syrup.....	503	.....	.....	.....	242	486
<i>Agricultural products and provisions—</i>						
Cattle: less than 200 lbs. each.....	701	.....	.....	.....	1,237	104
Dairy cows: 700 lbs. or more each.....	701	.....	.....	.....	550	9,404
Cattle, n.s.p.f., 700 lbs. or more each.....	701	.....	.....	.....	12,080	28
Beef: fresh, chilled or frozen.....	701	.....	.....	.....	70	14
Beef and mutton tallow (inedible).....	701	.....	.....	.....	9	71
Pork: fresh or chilled.....	703	.....	.....	.....	336	2
Pork: frozen.....	703	.....	.....	.....	83	.....
Hams and bacon, not cooked.....	703	.....	.....	.....	179	5
Edible offal.....	706	.....	.....	.....	97	1
Condensed milk, unsweetened.....	708a	.....	.....	.....	.....	57
Buttermilk, dried.....	708b	.....	.....	.....	96	.....
Cheddar cheese.....	710	.....	.....	.....	899	2
Eggs in shell, chicken.....	713	.....	.....	.....	2	273
Horses, not over \$150 per head.....	714	.....	.....	.....	591	476

(1) Tax on copper suspended from April 30, 1947, for a period of two years.

(2) Agreement with Mexico provides that, effective 30 days after termination of unlimited national emergency proclaimed on May 27, 1941, rate shall be as follows:—
blocks, pigs, etc. 1½¢ per lb.; old and worn-out zinc, dross and skimmings, 1½¢ per lb.; zinc-hearing ores, 1½¢ per lb.

(3) Quota suspended January 30, 1943.

(4) Provided that quota shall be effective 30 days after the President, after termination of unlimited national emergency, shall have proclaimed that the abnormal situation in respect of cattle and meats has terminated.

U.S. Statistical Description (abbr.)	Tariff Rates				Imports into U.S. from Canada
	U.S. Tariff Item	Smoot-Hawley (i.e. 1930 rate)	1946 rate	Geneva agreement rate	
				(thousands of dollars)	
<i>Agricultural products and provisions—Con.</i>					
Horses, over \$150 per head.....	714	20%	17½%	15%	35
Foxes, silver or black.....	715	15%	15%	15%	69
Live animals, n.s.p.f.....	715	15%	15%	7½%	25
Barley.....	722	20¢ bu.	15¢ bu.	7½¢ bu.	78
Barley malt.....	722	40¢ 100 lbs.	40¢ 100 lbs.	30¢ 100 lbs.	6,499
Oats, hulled or unhulled.....	726	16¢ bu.	8¢ bu.	4¢ bu.	1,290
Oats, unhulled, ground.....	726	45¢ 100 lbs.	25¢ 100 lbs.	25¢ 100 lbs.	1,485
Rye.....	728	15¢ bu.	12¢ bu.	6¢ bu.	1,445
Wheat.....	729	42¢ bu.	42¢ bu.	21¢ bu.	2,488
Wheat, unfit for human consumption.....	729	10%	5%	5%	73
Wheat flour.....	729	\$1.04 per 100 lbs.	\$1.04 per 100 lbs.	52¢ per 100 lbs.	68
Bran, shorts, middling, etc. (direct importation).	730	10%	5%	2½%	34
Bran, shorts, middling, etc. (withdrawn from bonded mills)	730	10%	5%	2½%	4,835
Beet pulp, dried.....	730	\$5.00 ton	\$3.75 ton	\$1.90 ton	1,504
By-product feeds, other than wheat.....	730	10%	5%	2½%	2,039
Mixed feeds.....	730	10%	5%	2½%	223
Grain hulls.....	730	10¢ 100 lbs.	5¢ 100 lbs.	5%	74
Dog food, canned and dried.....	720	10%	5%	2½¢ 100 lbs.	86
Screenings, scalplings, etc., other than flax seed screenings.....	731	10%	5%	5%	135
Flaxseed screenings.....	731	10%	5%	2½%	2,124
Cereal breakfast foods, n.s.p.f.....	732	20%	10%	10%	130
Apples, green or ripe.....	734	25¢ bu.	15¢ bu.	12½¢ bu.	436
Blueberries, natural or in brine.....	736	1½¢ lb.	1¢ lb.	1¢ lb.	6
Berries, edible, natural or in brine, other (except blueberries, strawberries or lingon berries).....	736	1½¢ lb.	3¢ lb.	3¢ lb.	10,273
Blueberries, frozen.....	736	35%	17½%	10%	1,008
Berries, edible, frozen, other.....	736	35%	17½%	14%	66
Cider.....	738	5¢ gal.	3¢ gal.	3¢ gal.	72
Grapes, other than hothouse.....	742	25¢ cu. ft.	12½¢ cu. ft. Feb. 15 to June 30;	6½¢ cu. ft., Feb. 15 to June 30;	1,899
			25¢ cu. ft., July 1 to Feb. 14.	17½¢ cu. ft. July 1 to Feb. 14.	2,884
			4¢ lb.	2¢ lb.	92
			2¢ lb.	1¢ lb.	461
			2¢ lb.	1¢ lb.	59
					268
					284
Alfalfa seed.....	763	8¢ lb.	4¢ lb.	2¢ lb.	454
Sweet clover seed.....	763	4¢ lb.	2¢ lb.	1¢ lb.	1,080
Fescue seed.....	763	2¢ lb.	2¢ lb.	1¢ lb.	100

Brome-grass seed.....	763	2¢ lb.	1¢ lb.	321	949
Wheat grass seed.....	763	2¢ lb.	1¢ lb.	96	64
Flower seed.....	764	6¢ lb.	3¢ lb.	-	126
Canned peas (10¢ or more per lb.).....	769	2¢ lb.	1¢ lb.	99	24
Potatoes, certified seed.....	771	75¢ 100 lbs.	37½¢ per 100 lbs.; 75¢ per 100 lbs. on imports in excess of 2,500,000 bu. per 12 month period be- ginning Sept. 15.	1,293	3,005
Potatoes, other (table stock).....	771	75¢ 100 lbs.	37½¢ per 100 lbs.; Mar. 1 to Nov. 30; 60¢ per 100 lbs. Dec. 1 to last day of Feb.; 75¢ per 100 lbs. on imports in excess of 1,000,000 bu., plus quantity domestic crop falls below 350- 000,000 bu., per 12 month period beginning Sept. 15.	223	182
Turnips and rutabagas.....	773	25¢ 100 lb.	6¼¢ 100 lb.	839	2,094
Vegetables, prepared, n.s.p.f.....	775	35%	17½%	29	53
Cocoa, unsweetened.....	777	3¢ lb.	1¢ lb.	77	77
Hay.....	779	\$5.00 ton	\$1.25 ton	381	2,720
Straw.....	779	\$1.50 ton	50¢ ton	32	147
Mustard seed, whole.....	781	2¢ lb.	1¼¢ lb.	223	223
<i>Fish, fresh or frozen—</i>					
Whitefish, fresh or frozen.....	717a	1¢ lb.	1¢ lb.	1,389	3,527
Yellow pike.....	717a	1¢ lb.	1¢ lb.	716	2,654
Jacks or grass pike.....	717a	1¢ lb.	1¢ lb.	126	394
Lake trout.....	717a	1¢ lb.	1¢ lb.	407	1,135
Yellow perch.....	717a	1¢ lb.	1¢ lb.	147	573
Tulibeas.....	717a	1¢ lb.	1¢ lb.	56	129
Lake herring and ciscoes.....	717a	1¢ lb.	1¢ lb.	368	1,537
Chubs.....	717a	1¢ lb.	1¢ lb.	123	22
Mullet.....	717a	1¢ lb.	1¢ lb.	52	111
Saugers.....	717a	1¢ lb.	1¢ lb.	459	923
Blue pike.....	717a	1¢ lb.	1¢ lb.	271	273
Fresh water fish, n.e.s.....	717a	1¢ lb.	1¢ lb.	51	262
Eels.....	717a	1¢ lb.	1¢ lb.	44	102
Salmon.....	717a	1¢ lb.	1¢ lb.	615	2,586
Cod, haddock, hake, pollock and cusk, without fins removed.....	717a	1¢ lb.	1¢ lb.	56	425
Halibut.....	717a	1¢ lb.	1¢ lb.	586	1,026
Mackerel, frozen.....	717a	2¢ lb.	1½¢ lb.	38	70
Swordfish, fresh.....	717a	2¢ lb.	1¢ lb.	215	882
Swordfish, frozen.....	717a	3¢ lb.	1½¢ lb.	4	109
Sturgeon, fresh.....	717a	1¢ lb.	1¢ lb.	56	297
Sturgeon, frozen.....	717a	1¢ lb.	1¢ lb.	151	168

U.S. Statistical Description (abbr.)	Tariff Rates			Imports into U.S. from Canada	
U.S. Tariff Item	Smoot-Hawley (i.e. 1930 rate)	1946 rate	Geneva agreement rate	1939	1946
<i>Fish, fresh or frozen—Con.</i>				(thousands of dollars)	
Cod, haddock, hake, pollock, cusk and rosefish, filleted, etc.	2½¢ lb.	17½¢ lb.; 2½¢ lb. on imports in excess of 15 million pounds or 15% of U.S. consumption if higher.	1½¢ lb. on imports in excess of 15 million pounds or 15% of average aggregate apparent annual consumption during the 3 preceding calendar years, or one-fourth of the total so entitled during the first 3 months, one-half during the first 6 months, or three-fourths during first 9 months. 2½¢ lb.	710	7,788
Other fish, filleted, etc.	2½¢ lb.	2½¢ lb.		453	2,622
<i>Fish, prepared or preserved—</i>					
Sardines in oil, over 9¢ per lb.	30%	30%	44% if valued not over 13¢ lb.; 30% if valued over 13¢ lb. but not over 18¢ lb.; 30% if valued over 18¢ lb. but not over 23¢ lb.; 15% if valued over 23¢ per lb. 12½% 10%	1	172
Sardines and other herring, not in oil.	25% 25%	12½% 12½%		—	975 307
Salmon, pickled.	1½¢ lb.	¾¢ lb.	¾¢ lb.	81	1,186
Cod, haddock, etc. pickled or salted, neither skinned nor boned, not over 43% moisture.	¾¢ lb.	¾¢ lb.	¾¢ lb.	925	1,296
Cod, haddock, etc., pickled or salted, neither skinned nor boned, over 43% moisture.	2¢ lb.	1½¢ lb.	1½¢ lb.	199	1,290
Cod, haddock, etc., pickled or salted, skinned or boned.	1¢ lb.	¾¢ lb.	¾¢ lb.	2	550
Herring, pickled or salted valued 6¢ or more per lb.	1¢ lb.	¾¢ lb.	¾¢ lb.	19	460
Herring, pickled or salted beheaded but not further advanced	1¢ lb.	¾¢ lb.	¾¢ lb.		

Syllit herring, pickled or salted.....	719(4)	1¢ lb.	1½¢ lb.	33	375
Mackerel in containers, weighing more than 15 lbs. each.....	719(4)	1¢ lb.	1¢ lb.	171	460
Alewives in containers weighing more than 15 lbs. each.....	719(5)	1½¢ lb.	1½¢ lb.	—	73
Herring, hard dry smoked.....	720a(2)	1½¢ lb.	1½¢ lb.	12	376
Herring, boned, smoked or kippered.....	720a(3)	3¢ lb.	1½¢ lb.	53	377
Herring, eviscerated (not boned), smoked or kippered.....	720a(3)	3¢ lb.	2¢ lb.	35	318
Cod, haddock, etc., smoked or kippered, whole, or beheaded or eviscerated.....	720a(4)	2½¢ lb.	1½¢ lb.	48	66
Cod, haddock, etc., smoked or kippered, skinned or boned.....	720a(5)	3¢ lb.	1½¢ lb.	211	1,067
Fish prepared or preserved n.s.p.f. in containers weighing more than 15 lbs. each.....	720b	1½¢ lb.	1½¢ lb.	6	111
<i>Spirits, wines and other beverages—</i>					
Gin, 1 gal. containers or less.....	802	\$5.00 pf. gal.	\$2.50 pf. gal.	—	238
Whisky in containers of 1 gal. or less.....	802	\$5.00 pf. gal.	\$2.50 pf. gal.	6,571	21,411
Whisky, in containers of more than 1 gal. each.....	802	\$5.00 pf. gal.	\$2.50 pf. gal.	681	1,641
Beer, in containers of 1 gal. or less.....	805	50¢ gal.	25¢ gal.	67	2,520
<i>Textiles—</i>					
Printers' rubberized blanketing of cotton.....	923	40%	30%	—	51
Flax tow.....	1001	1¢ lb.	1¢ lb.	2	437
Flax yarn single not finer than 60 lea.....	1004a	35%	25%	—	134
Flax thread, twine and cord.....	1004c	40%	30%	—	55
Clothing wool finer than 44s but not finer than 56s in the grease.....	1102b	34¢ lb.	34¢ lb.	59	—
Clothing wool finer than 56s, in the grease.....	1102b	34¢ lb.	34¢ lb.	51	—
Combing wool finer than 44s, in the grease.....	1102b	34¢ lb.	34¢ lb.	161	—
Combing wool finer than 56s, in the grease.....	1102b	34¢ lb.	34¢ lb.	98	—
Wool nots not carbonized.....	1105a	27¢ lb.	16¢ lb.	61	524
Top, slubbing, roving and ring waste.....	1105a	37¢ lb.	34¢ lb.	—	80
Thread or yarn waste.....	1105a	25¢ lb.	15¢ lb.	103	386
Wool rags.....	1105a	18¢ lb.	9¢ lb.	290	631
Wool hose and half hose, valued over \$3.00 doz. prs.....	1114b	50¢ lb. plus 50%	50¢ lb. plus 25%	-2	277
Wool wearing apparel, not knit valued not over \$4.00 per lb.....	1115a	33¢ lb. plus 45%	33¢ lb. plus 30%	1	65
Wool wearing apparel, not knit valued more than \$4.00 lb.....	1115a	50¢ lb. plus 50%	50¢ lb. plus 30%	2	60
Silver, tops and rovings of rayon.....	1302	10¢ lb. plus 30%	10¢ lb. plus 30%	—	51

U.S. Statistical Description (abbr.)	Tariff Rates			Imports into U.S. from Canada	
	U.S. Tariff Item	Smoot-Hawley (i.e. 1930 rate)	1946 rate	Geneva agreement rate	
				1939	1946
<i>Papers and Books—</i>				(thousands of dollars)	
Book and printing paper.....	1401	1½¢ lb. plus 10%	1/5¢ lb. plus 5%	496	6,479
Pulpboard in rolls for wallboard, not processed.....	1402	10%	5%	187	483
Leatherboard, counterboard.....	1402	10%	10%	71	205
Boxes of paper with coated surface.....	1405	5¢ lb. plus 20%	5¢ lb. plus 10%	39	61
Lithographic prints not exceeding 12/1000 inch in thickness.....	1406	30¢ lb.	30¢ lb.	5	267
Hanging paper, not printed.....	1409	10%	7½%	—	59
Hanging paper, printed.....	1409	1½¢ lb. plus 20%	1¢ lb. plus 10%	4	194
Bound books of all kinds, of foreign authorship, n.e.s. (ex leather).....	1410	15%	7½%	17	108
Printed matter, n.s.p.f., not of foreign authorship.....	1410	25%	20%	23	70
Pulpboard in rolls, for wallpaper processed.....	1413	30%	15%	160	997
Ribbon fly catchers.....	1413	35%	27½%	—	60
<i>Sundries—</i>					
Ice skates and parts.....	1502	20%	15%	368	325
Silver or black fox, whole skins.....	1519c	50%	37½%	1,467	2,047
Nets and nettings of cotton not in part of rubber.....	1529a	90%	45%	—	66
Kip skins, wet salted.....	1530a	10%	5%	225	13
Calf skins, wet salted.....	1530a	10%	5%	298	—
Sole and belting leather offal.....	1530b(1)	12½%	10%	98	15
Cattle side upper grains.....	1530b(4)	15%	12½%	35	382
Patent leather.....	1530b(4)	15%	7½%	497	321
Calf and kip leather, upper.....	1530b(4)	15%	12½%	244	774
Goat and kid leather, upper.....	1530c	10%	10%	—	57
Boots and shoes, men's welt.....	1530e	20%	50¢ pr. min. 10% max. 20%	—	55
Boots and shoes, women's welt.....	1530a	20%	50¢ pr., min. 10% max. 20%	—	55
Slippers.....	1530a	20%	10%	6	1,723
Moccasins.....	1530a	20%	10%	11	54
Manufactures of leather, n.e.s.....	1531	35%	25%	—	82
Gloves of horsehide or cowhide.....	1532(b)	25%	15%	—	188
Fishing reels \$3.50 or over.....	1535	55%	30%	—	109
					min. 15% max. 55%

	1537(b)	10%	50¢ ton -	10%	50¢ ton	10%	112
Automobile tires and tubes.....	1548	50¢ ton	4/10¢ lin. ft.	10%	50¢ ton	10%	1,484
Peat moss.....	1551	10%	7 1/2¢	7 1/2¢	7 1/2¢	7 1/2¢	20
Raw motion picture film, 1' or more in width.....	1555	10%	7 1/2¢	7 1/2¢	7 1/2¢	7 1/2¢	60
Textile waste, n.e.s.....	1555	10%	7 1/2¢	7 1/2¢	7 1/2¢	7 1/2¢	143
Fur waste—pieces or trimmings.....	1555	10%	7 1/2¢	7 1/2¢	7 1/2¢	7 1/2¢	382
Fur waste, other.....	1555	10%	7 1/2¢	7 1/2¢	7 1/2¢	7 1/2¢	1,839
Christmas trees.....	1558	10%	5%	5%	5%	5%	3,040
Synthetic rubber and mfrs., not in part of carbon.....	1558	20%					

SUMMARY OF PRINCIPAL DUTIABLE ITEMS

	1939	1946
	(000,000	omitted)
Total of items listed in table.....	\$ 99.2	277.4
Total dutiable imports into United States from Canada.....	111.4	292.7
Percent of total represented by above items.....	<u>87%</u>	<u>94.8%</u>

STATEMENT 2—Imports into the United States from Canada of certain items free of customs duty but subject to Internal Revenue Import Tax on which concessions were obtained under the General Agreement on Tariffs and Trade, calendar years 1939 and 1946

U. S. Statistical Description (abbr.)	Tariff Rates			Imports into U. S. from Canada	
U. S. Tariff Item	Smoot-Hawley (i.e. 1930 rate)	1946 rate	Geneva agreement rate	1939	1946
				(thousands)	of dollars)
Copper concentrates.....	Free, plus 4¢ lb. IRC tax on copper content.	Free, plus 4¢ lb. IRC tax on copper content.	Free, plus 2¢ lb. IRC tax on copper content ⁽¹⁾	14	2,473
Copper, unrefined, in pigs or bars.....	Free, plus 4¢ lb. IRC tax on copper content.	Free, plus 4¢ lb. IRC tax on copper content.	Free, plus 2¢ lb. IRC tax on copper content ⁽¹⁾	157	-
Copper, refined, in ingots, plates or bars.....	Free, plus 4¢ lb. IRC tax on copper content.	Free, plus 4¢ lb. IRC tax on copper content.	Free, plus 2¢ lb. IRC tax on copper content ⁽¹⁾	73	4,338
Copper, old and scrap.....	Free, plus 4¢ lb. IRC tax on copper content.	Free, plus 4¢ lb. IRC tax on copper content.	Free, plus 2¢ lb. IRC tax on copper content ⁽¹⁾	-	114
Gasoline, under 100 octane, and other motor fuel.....	Free, plus 2½¢ gal. IRC tax.	Free, plus 2½¢ gal. IRC tax.	Free, plus 1½¢ gal. IRC tax.	-	137
Unfinished oils for further processing.....	Free, plus ¼¢ gal. IRC tax.	Free, plus ¼¢ gal. IRC tax.	Free, plus ¼¢ gal. IRC tax.	2	155
Lubricating oils, including paraffin oil.....	Free, plus 4¢ gal. IRC tax.	Free, plus 4¢ gal. IRC tax.	Free, plus 2¢ gal. IRC tax.	-	674
Boards, cedar siding.....	Free, plus \$3.00 M.bd.ft. IRC tax.	Free, plus \$1.50 M.bd.ft. IRC tax.	Free, plus 75¢ M.bd.ft. IRC tax.	2,023	2,341
Boards, other cedar.....	Free, plus \$3.00 M.bd.ft. IRC tax.	Free, plus \$1.50 M.bd.ft. IRC tax.	Free, plus 75¢ M.bd.ft. IRC tax.	292	4,967
Boards, maple, birch and beech.....	Free, plus \$3.00 M.bd.ft. IRC tax.	Free, plus \$1.50 M.bd.ft. IRC tax.	Free, plus \$1.50 M.bd.ft. IRC tax.	2,290	10,403
Boards, hardwoods other.....	Free, plus \$3.00 M.bd.ft. IRC tax.	Free, plus \$1.50 M.bd.ft. IRC tax.	Free, plus \$1.50 M.bd.ft. IRC tax.	143	3,679

⁽¹⁾ Tax on copper suspended from April 30, 1947, for a period of two years.

STATEMENT 3—PRINCIPAL CONCESSIONS GAINED IN NON-COMMONWEALTH COUNTRIES, OTHER THAN THE UNITED STATES—*BENELUX*

Tariff Item	Short Description	Previous Rate	Agreement Rate	Canadian Exports to Benelux	
				1938	1946
				\$	\$
19	Fish, fresh chilled or frozen..... The Benelux monopoly charges are not applicable to this item on imports up to 150% of the average imports in 1936, 1937 and 1938.	Free	Free	24,737	207,142
26(c)	Cheese, hard or medium.....	15%	15% (No monopoly charge)	61,801	.....
59(a)	Apples, fresh..... Rates on apples, fresh, include both tariff and monopoly charge.	32% to 52%	20% Feb. 1— 6% May 31	40,485	.....
62(a)	Apples and pears, dried.....	15%	12%	.....	.....
ex 68	Wheat..... See separate note on monopoly charge and mixing regulations.	Free	Free	9,072,291	14,315,998
75(a)	Flour, wheat..... See separate note on monopoly charge and mixing regulations.	3%	3%	76,768	802,792
84(b)	Clover and other seeds for meadows	Free	Free (No monopoly charge)	4,568	824,923
	Grass seeds.....	Free	Free	4,667	39,660
	Maximum rate of Netherlands monopoly duty or corresponding Belgian-Luxembourg charge for seeds of grasses f.15.—or fr. 247.80 per 100 Kg. net respectively.				
120 a 3	Salmon, canned.....	25%	20%	38,963	.....
ex 121	Lobsters, canned.....	30%	25%	34,117	.....
134	Alimentary pastes.....	15%	15%	490	.....
	Maximum rate of Netherlands monopoly duty or corresponding Belgian-Luxembourg charge will be the Netherlands monopoly duty or corresponding Belgian-Luxembourg charge for wheat or other cereals, multiplied by the reciprocal of the extracting ratio of the flour content of the products, provided for under this Item.				
162	Meat-meal and fish-meal.....	Free	Free	24,283	.....
194	Asbestos, crude.....	Free	Free	717,646	564,012
195 e	Lead ore.....	Free	Free	22,455	183,798
195 f	Zinc ore.....	Free	Free	1,281,023	321,057
790	Zinc, lumps, ingots.....	Free	Free		
195 h	Molybdenum and manganese ore....	Free	Free	Not available	
303	Mineral and vegetable blacks.....	Free	Free	.....	.....
305	Earth colours.....	Free	Free	14,464	314,207
362(a)	Gloves, all leather.....	20%	18%	19,876	40,816
(b)	Gloves, partly of leather.....	20%	18%		
366	Fur skins, raw.....	Free	Free	8,803	4,944
367	Fur skins, dressed.....	6%	6%	2,702	4,388

STATEMENT 3—PRINCIPAL CONCESSIONS GAINED IN NON-COMMONWEALTH COUNTRIES, OTHER THAN THE UNITED STATES—*BENELUX—Continued*

Tariff Item	Short Description	Previous Rate	Agreement Rate	Canadian Exports to Benelux	
				1938	1946
368	Fur skins, made up.....	24%	24%	345	2,187
ex 369 a	Synthetic rubber.....	Free	Free		201,965
374 a	Rubber conveyor belting.....	10%	10%	19,899	46,619
382	Pulpwood.....	Free	Free	420,781	
383	Wood, squared with the axe or by sawing, not elsewhere specified or included.....				
ex a	Douglas fir, pitchpine, ponderosa pine, white pine and redwood....	Free	Free		
ex b	Ash, cypress, gum, hickory, oak, poplar, jarrah, teak, pyinkado, ingyin and eng.....	Free	Free		
384	Wood merely sawn longitudinally not elsewhere specified or included:			229,744	719,339
ex a	Douglas fir, pine, redwood				
	1. having at any point a thickness exceeding 76.2 mm or a width exceeding 279.4 mm. or a length exceeding 7.01 m.....	10%	10%		
	2. not specified.....	3%	3%		
ex b	of ash, cypress, gum, hickory, etc...	3%	3%		
416	Wood pulp.....	Free	Free	30,614	881
580	Socks and stockings, real silk.....	24%	24%		
581	Socks and stockings, artificial silk...	24%	24%	33,410	354,617
584	Clothing, n.e.s.....	24%	Bound	259	5,898,781
585					
586					
587					
588					
600	Common half boots.....	15%	Bound		1,051,986
601	Slippers and house footwear.....	24%	Bound	2,589	
602	Other leather footwear.....	24%	Bound		
604	Rubber footwear.....	24%	24%	16,876	175,479
634	Grindstones, whetstones and polishing stones of natural or artificial abrasives.....	10%	10%		20,148
650	Bricks and refractory materials.....	10%	10%		27,342
697	Ferro alloys, raw.....	Free	Free	86,743	1,438,708
756	Copper ingots, grains, plates.....	Free	Free		
757	Copper bars.....	2%	Bind at 8%	2,666,268	1,302,969
	Copper wire.....	4%	4%		
762	Rough pieces of copper.....	6%	6%		
770(a)	Nickel, raw.....	Free	Free	2,566,694	393,659
774(a)	Aluminum, raw.....	Free	Free	59,664	1,613,690
834	Manure spreaders, seed drills.....	6%	6%		
835 a & b	Mowers, reapers, reaper threshers...	6%	6%	26,587	771,856
836	Agricultural machines and equipment.....	6%	6%		

STATEMENT 3—PRINCIPAL CONCESSIONS GAINED IN NON-COMMONWEALTH COUNTRIES, OTHER THAN THE UNITED STATES—*BENELUX—Concluded*

Tariff Item	Short Description	Previous Rate	Agreement Rate	Canadian Exports to Benelux	
				1938	1946
861	Alcaline storage batteries and plates	20%	10%	561	240,215
ex 864	Spark plugs.....	12%	12%	32,327	75,377
875(a)	Porcelain insulators.....	10%	10%	18,604	.....
878	Washing machines.....	10%	10%	285	72,144
890	Automobiles with body or complete.	24%	Bound	27,900	9,934,315
891	Automobile chassis.....	24%	Bound		
892	Coachwork for automobiles.....	24%	Bound		
893	Components and separate parts of automobiles.....	6%	Bound		
ex a	2. bodywork not specified.....	15%	Bound		
ex c	1. chassis frames, bumpers, protective bars, wheels of pressed sheet iron or steel, rims of iron or steel, etc.....	15%	Bound	.....	452,964
901	Airplanes and other heavier than air apparatus.....	10%	10%		
Total above items.....				17,690,289	42,463,978
Total exports from Canada to Benelux.....				19,822,297	97,509,469

NOTE.—A large part of the exports of non-scheduled items in 1946 comprised shipments of locomotives and other railway rolling stock and oats.

STATEMENT 3—PRINCIPAL CONCESSIONS GAINED IN NON-COMMONWEALTH COUNTRIES, OTHER THAN THE UNITED STATES—BRAZIL

Cruzeiro=\$0.0544 Canadian

Kilogram=2.204 lbs.

NOTE: It was agreed at Geneva that, due to the depreciation of the cruzeiro and the increased value of imported goods, most Brazilian specific duties were to be increased by 40 per cent on which basis negotiations were conducted. This proposal is now under discussion in Brazil but has not yet been brought into force. The following table, consequently, shows the present rate of duty, the proposed new duty and the rate agreed upon under the Geneva Trade Agreements (rates are in cruzeiros kilogram unless otherwise stated).

Tariff Item	Short Description	Present Rate	Negotiating Rate	Geneva Trade Agreement Rate	Canadian Exports to Brazil	
					1939	1946
37	Furs prepared or tanned.....	41.60	58.24	29.12	\$ 24,323	\$ 160,848
	Same, patched.....	31.20	43.68	22.40		
Ex 86	Canned soups, with and without meat	10.40	14.56	33%		1,165
87	Casein, powder.....	2.70	3.78	1.89		
89	Glue:					
	Fish.....	5.20	7.28	4.20		20,973
	Other kinds.....	3.10	4.34	2.80		
98	Milk:					
	Condensed or concentrated, with sugar.....	3.10	4.34	2.10	36	
	Same, without sugar or in powder.....	2.60	3.64	1.82		
103	Cod Liver oil.....	4.20	5.88	0.70		
106	Cod, dry-salted, unboned metric ton	440.00 plus Surtax 0.30 cr. Kg. plus Consumption tax 0.20 cr. Kg.	616.00 plus Surtax 0.30 cr. Kg. plus Consumption tax 0.20 cr. Kg.	200.00 plus Surtax 0.30 cr. Kg. minus Consumption tax 0.20 cr. Kg.	5,224	114,822
	Cod, dry, salted, boned.....	0.70	0.98	0.49		61,037
	Herring, smoked.....	3.20	4.37	1.00		1,726
225	Apples, fresh.....	Free	Free	Free	98,579	376,716
229	Dried fruits.....	2.10	2.94	Free		
230	Preserved fruit in syrup or jam	6.24	8.74	4.20	576	5,161
	Preserved fruits, without syrup	15.60	21.84	10.92		
234	Oats..... ton	250.00	350.00	175.00		
239	Wheat..... metric ton	62.10	86.94	86.94		1,495,956
240	Preserved vegetables.....	4.16	5.82	4.20		5,586
245	Oat flour.....	0.78	1.09	1.09		6,922
	Wheat flour..... metric ton	155.00	217.00	155.00	26,493	5,573,878
247	Barley malt..... metric ton	250.00	350.00	350.00	63,042	
254	Grass and clover seeds.....	2.70	3.78	Free		
	Certified seed potatoes.....	Free	Free	Free	108	662
294	Planks and boards..... cu. m.	130.00	182.00	182.00	7,012	30,147
276	Whiskey.....	6.80	9.52	9.52	8,641	141,479

Cruzeiro=\$0.0544 Canadian

Kilog=2,204 lbs.

Tariff Item	Short Description	Present Rate	Negotiating Rate	Geneva Trade Agreement Rate	Canadian Exports to Brazil	
					1939	1946
556	Standard newsprint..... Wrapping (white)..... Toilet paper.....	Free 3.1 1.6	Free 4.34 2.24	Free 2.80 1.60	\$ 257,559 Not separately classified	\$ 3,505,455 811
569	Asbestos, raw or in fibre..... Millboard, leaves or sheets.....	1.00 3.30	1.40 4.62	Free 3.20	8,970	273,787 Not separately classified
587	Grinding wheels..... Granulated abrasives or fabric.....	1.60 2.60	2.24 3.64	2.24 2.24	7,678	26,053
677	Lead bars, ingots, pigs metric ton	230.00	322.00	322.00	354,002	803,623
716	Zinc ingots and pigs.. metric ton	260.00	364.00	182.00	8,823	160,306
718	Pure or purified zinc in cylinders shot or rods.....	10.40	14.56	12.60		
735	Copper blocks, ingots, pigs metric ton	140.00	196.00	196.00	384,998	452,273
894	Antimony for industrial use.....	1.10	1.54	Free	Not separately classified	
902	Cadmium bars, cylinders or ingots.....	2.70	3.78	1.89	.....	4,979
907	Cobalt cubes, leaves, ingots or granulated..... Cobalt powder..... Cobalt, purified, refined or pure	13.30 42.50 63.70	18.62 59.50 89.18	9.31 29.75 44.59	.....	2,723
936	Fertilizers.....	Free	Free	Free	\$ 994	\$ 1,687
945	Woodpulp..... Metric ton	85.50	119.70	119.70	26,233	1,020,390
974	Disinfectant and insecticides for use on the farm.....	0.20	0.28	0.14	Not separately classified.	
982	(6) Paint, flat..... (7) Paint primers.....	1.17 3.10	2.24 4.34	1.63 3.27	111	44,958
1583	Electric sound amplifiers for radios, gramophones, etc..... Telephone, telegraph, wireless telephone, telegraph and television receivers and transmitters.....	11.40 12.70	15.96 17.78	10.36 17.78	35,804	105,541
1632	Electric dry cells, separate or in batteries weighing up to 50 gr. Weighing over 50 cys. to 100 gr.....	3.00 2.60	4.20 3.64	2.10 1.82	.....	.....
1652	Transformers weighing up to 10 Kg..... Transformers weighing over 10 up to 100 Kg.....	5.50 4.20	7.70 5.88	3.15 2.94	Not separately classified	
1778	Aircraft and parts.....	0.70	0.98	0.98	.....	104,800
1779	Automobiles, passenger and freight.....	Various		Rates Bound	1,100	124,881

Cruzeiro = \$0.0544

Kilog = 2.204 lbs.

Tariff Item	Short Description	Present Rate	Negotiating Rate	Geneva Trade Agreement Rate	Canadian Exports to Brazil	
					1939	1946
					\$	\$
1782	Auto chassis parts.....	3.40	4.76	2.38	1	29,263
1822	Refrigerators.....	Various		Rates Bound		1,637
1825	Agricultural implements.....	Free	Free	Free	79,350	126,412
1831	Sewing machines and parts.....	0.93	1.30	1.30	1,488,839	1,547,219
1831	Typewriters.....	7.96	11.14	11.14		4,884
Various	Machinery.....	Various		Rates on many kinds bound and a few reductions made	61,117	343,675
	Total above items.....				2,949,613	16,587,963
	Total Canadian exports to Brazil.....				4,406,789	24,601,962

Other important Canadian exports to Brazil:

1939:

Tires and tubes, \$682,140; aluminum and manufactures, \$305,127.

1946:

Aluminum and manufactures, \$1,825,521; ships sold, \$830,700; brass and manufactures, \$351,817; rye \$339,541; rolling mill products, \$447,400; pigments, n.o.p., \$310,575.

The above items were not scheduled at Geneva.

STATEMENT 3.—PRINCIPAL CONCESSIONS GAINED IN NON-COMMONWEALTH COUNTRIES, OTHER THAN THE UNITED STATES—CHILE

Gold Peso=21 cents approx. Rates expressed in Gold pesos per kilo unless otherwise stated.

Tariff Item	Short Description	Previous Rate	Agreement Rate	Canadian Exports to Chile	
				1939	1946
				\$	\$
4	Aluminum ingots	0.07	0.05		
1200	Aluminum in bars or sheets	0.15	0.15	549	42,158
12	Nickel in ingots	0.075	0.05	66,326	65,270
47	Pine, rough or sawn (includes Douglas Fir)	70 pesos per cu. metre	70 pesos per cu. metre	12,865	
57	Rubber, crude	0.15	0.15		235,607
Ex 81	Codfish, dried	1.75	1.00		
Ex 83	Cattle for breeding	90 each	45 each		82,122
108	Lucerne seed	0.15	0.10		
113	Other seeds	0.07	0.05		900
Ex 138	Apples, fresh	Free	Free		
252	Whiskey	9.00 pesos per litre	6.00 pesos per litre	1,130	77,116
306	Oilcloth and linoleum	0.70	0.35		1,793
324	Cotton duck, less than 300 gms. per sq. metre	5.00	1.90		
325	Same over 300 gms.	3.00	1.10		
Ex 956	Codliver oil	0.75	0.35		
Ex 1189	Iron or steel bars more than 3 metres in length	0.10	0.10		113,578
1330	Bronze valves	1.20	0.90		3,484
1343	Mining machinery	0.18	0.18	Not separately classified	13
1344	Mining apparatus	0.25	0.25		
1346	Ploughs	0.35	0.25	23,202	13,715
1347	Other agricultural machines	0.125	0.125	48,174	208,749
1351	Parts for agricultural machines	0.30	0.30	15,109	32,311
1358	Industrial machinery	0.125	0.125		
1359	Industrial apparatus	0.25	0.25	721	106,771
Ex 1387	Transmission belts, rubber	1.10	1.10	79,795	231,780
1388	Belts for conveyor machines, of rubber	1.20	0.20		
1406	Carbons and electrodes	0.15	0.15		5,178
1414	Electric meters	1.10	1.10	Not separately classified	69,099
1415	Storage batteries weighing more than 100 kgs.	0.35	0.25		
1497	Asbestos in fibre, etc.	0.075	0.075	125,800	38,171

Gold Peso=21 cents aprox. Rates expressed in Gold pesos per kilo unless otherwise stated.

Tariff Item	Short Description	Previous Rate	Agreement Rate	Canadian Exports to Chile	
				1939	1946
				\$	\$
1498	Asbestos wrought for engine packing.....	1.10	1.10	418	.....
	Total above items.....			385,692	1,364,203
	Total Canadian Exports to Chile.....			956,392	3,564,804
	Other Canadian Exports to Chile, on items not scheduled:				
	Motor vehicle casings.....			227,714	205,668
	Inner tubes.....			31,159	24,043
	Newsprint.....			79,031	780,077
	Sewing machines and parts.....				182,212
	Soda and sodium compounds.....			23,067	89,028

STATEMENT 3—PRINCIPAL CONCESSIONS GAINED IN NON-COMMONWEALTH COUNTRIES, OTHER THAN THE UNITED STATES—CHINA

Tariff Item	Short Description	Previous Rate	Agreement Rate	Canadian Exports to China	
				Fiscal Year 1937	1946
147a	Aluminum foil.....	20%	20%	\$ 484,883	\$ 1,479,588
149	Aluminum grains, ingots, slabs.....	7½%	5%		
150	Aluminum sheets.....	15%	15%		
151	Aluminum, other.....	12½%	12½%		
164	Copper bars and rods.....	10%	10%	1,314	335,169
166	Copper ingots and slabs.....	10%	10%		
169	Copper sheets and plates.....	10%	10%		
188	Rails, railway.....	7½%	7½%		1,372,669
218	Lead pigs or bars.....	25%	22½%	260,789	82,016
225	Nickel.....	12½%	10%	18,180	2,588
Ex 236	Zinc and spelter.....	15%	15%	229,570	1,729
244	Agricultural machinery and parts.....	7½%	7½%	7,631	197
245	Dynamos, electric motors and transformers.....	15%	12½%	15	813,196
Ex 253	Aircraft and parts.....	10%	10%	20,472	80,655
		5%	5%		
256(a)	Autos freight.....	15%	15%		3,500,208
		30%	25%		
256(c) 2	Auto parts and accessories.....	15%	15%	65	952,953
307	Cheese.....	35%	30%	5,854	
323	Processed milk.....	25%	20%	48,307	2,966
357	Wheat flour.....	15%	15%	335,890	9,053,525
Ex 358	Rolled oats and oatmeal.....	25%	25%	5,382	50,123
372	Malt.....	15%	12½%	10,380	
395	Wheat.....	15%	15%		2,090,116
414	Whisky.....	80%	80%	20,581	33,109
415	Gin.....	80%	80%	1,869	7,637
436	Sulphate of alumina.....	10%	10%	Not separately classified	
487	Bronze powder.....	15%	15%	Not separately classified	
559	Wood pulp, chemical.....	5%	5%	170,588	122,867
567(a)	Skins and furs undressed.....	10%	10%	49,114	59,913
Ex 582	Timber n.e.s. rough hewn, softwood.....	12½%	12½%	367,990	124
584	Softwood sawn.....	20%	20%	757,885	1,820,928
586	Timber, ordinary, softwood.....	20%	20%		
588	Railway sleepers.....	10%	10%	122,995	1,012,972
Ex 644d	Rubber tires and tubes.....	25%	20%	230,472	159,564
	Total above items.....			3,150,226	23,034,812
	Total Canadian Exports to China.....			4,899,488	42,915,14
	Other Canadian exports to China on items not scheduled:				
	Newsprint.....			593,476	2,215,630
	Guns, rifles and other firearms.....				3,207,184
	Ships sold.....				5,472,750
	Electrical apparatus, n.o.p.....			4,082	805,080
	Fertilizers, manufactured.....			177,896	1,048,795
	Wrapping paper.....			213,130	59,106

STATEMENT 3.—PRINCIPAL CONCESSIONS GAINED IN NON-COMMONWEALTH COUNTRIES, OTHER THAN THE UNITED STATES—CUBA

NOTE.—Cuban peso=\$ U.S.

Item No.	Short Description	Previous Rate to Canada	Agreement Rate to Canada	Change in U.S. Preference	Canadian Exports to Cuba	
					1939	1946
					\$	\$
72-B	Aluminum in bars, plates and wire.....	\$5.00 per 100 Kg.	\$4.00	Reduced	2,288	97,209
72-C(1)	Aluminum in powder.....	\$5.00 per 100 Kg.	\$2.00	U.S. rate also reduced but margin narrowed		
72-D(2)	Aluminum hammered into fine leaves.....	\$7.50 per 100 Kg.	\$7.00	Reduced		
82-B	Malt.....	\$0.30 per 100 Kg.	\$0.25	Reduced	107,935	455,005
99	Pills, including quinine, etc.....	\$0.40 per Kg.	\$0.28	U.S. rate also reduced but margin remains		
100-A	Pharmaceutical specialties or patent medicines.....	\$0.20 per Kg.	\$0.20	No change	469	177,413
100-B	Biological and opotherapeutical products in any form.....	\$0.25 per Kg.	\$0.25	No change		
102-A	Cod liver oil and others...	\$2.00 per 100 Kg.	\$1.60	Eliminated	207	
152-D	Newsprint in rolls.....	Free	Free		389,816	1,197,814
152-E	Book paper.....	\$5.00 per 100 Kg.	\$5.00	No change		10,696
166-B	Crates, shooks.....	\$1.20 per 100 Kg.	\$0.06	Eliminated		53,963
166-E	Broom handles.....	\$0.20 per 100 Kg.	\$0.16	Eliminated	2,043	9,126
188-C	Cattle, for reproduction...	Free	Free		Nil	10,219
193-G	Patent leather, in hides or sheets.....	\$0.50 per Kg.	\$0.45	No change	39,585	39,158
216-A	Machinery apparatus, instruments, agricultural...	8%	6%	Eliminated	922	12,658
216-B	Machinery apparatus, instruments, industrial....	11.4%	10%	Reduced	18,012	23,031
217	Motors, all kinds, and parts.....	11.4%	10%	Reduced		659
223	Telephones, electric apparatus, etc.....	17%	15%	Reduced	52,941	170,512
224	Needles for sewing machines.....	5%	4%	Eliminated	14,747	11,617
247-A	Cod fish and stockfish....	\$5.50 per 100 Kg.	\$4.125	Eliminated	169,983	322,413
247-B	Salted skate haddock and sardines, dried and compressed.....	\$3.50 per 100 Kg.	\$3.50	No change	360	
247-C	Hake and other similar fish, n.s.c.....	\$4.00 per 100 Kg.	\$3.00	Eliminated		
248	Herring in brine, smoked, salted or pickled.....	\$1.30 per 100 Kg.	\$0.975	Eliminated		
254	Wheat.....	\$0.40 per 100 Kg.	\$0.16	Eliminated		8,565

STATEMENT 3.—PRINCIPAL CONCESSIONS GAINED IN NON-COMMONWEALTH COUNTRIES, OTHER THAN THE UNITED STATES—CUBA—*Conte.*

Item No.	Short Description	Previous Rate to Canada	Agreement Rate to Canada	Change in U.S. Preference	Canadian Exports to Cuba	
					1939	1946
					\$	\$
256-A	Wheat flour.....	\$1.30 per 100 Kg	\$0.83	\$ 0.63	25,071	175,647
256-D	Flour, meals and semolinas of oats.....	\$1.625 per 100 Kg.	\$1.625	No change	.....	.....
260-A	Potatoes certified to be for seed imported Sept. 1 to Jan. 31.....	Free	Free	.....	425,840	711,273
260-B	Potatoes n.s.c. Nov. 1 to June 30.....	\$5.00 per 100 Kg.	\$5.00	No change	4,606	.....
260-C	Potatoes n.s.c. July 1 to 31, and Oct. 1 to 31.....	\$4.00 per 100 Kg.	\$4.00	No change		.....
	The same imported from Aug. 1 to Sept. 30 of each year.....	\$4.00 per 100 Kg.	\$3.50	No change in margin. U.S. rate also reduced and reduction to Canada may be merely consequential.		
276-D	Whiskey in bottles.....	\$0.36 litre	\$0.29	No change in margin. See note below.	2,596	70,631
313	Games, toys and other articles.....	25%	18.75%	Reduced	.....	22,930
Ex 324-B	Calcium carbide.....	10%	8%	Eliminated	96,871	163,578
Total above items.....					\$1,354,292	\$3,744,11
Total exports to Cuba.....					\$1,497,352	\$5,269,891

STATEMENT 3—PRINCIPAL CONCESSIONS GAINED IN NON-COMMONWEALTH COUNTRIES OTHER THAN THE UNITED STATES—CZECHOSLOVAKIA

Rates shown in Kcs (Crowns) per 100 kg. Crown = 2 cents

Tariff Item	Short Description	Previous Rate	Agreement Rate	Canadian Exports to Czechoslovakia	
				1937	1946
				\$	\$
ex 39	Apples and pears dried.....	300	50		
	Other dried fruit.....	300	100		
ex 49	Lucerne seed (alfalfa).....	350	85		191,282
50	Grass seeds.....	500	440		
83	Skins and hides.....	Free	Free	74,010	4,292
ex 108d	Gin and whisky.....	3,700	3,000	274	
ex 114	Baked flakes and similar cereal preparations.....	1,500	700		
120a	Herrings, salted.....	20	14		244,128
120b	Herrings, sacked.....	70	70		
ex 121a	Fish, n.s.p.f., salted.....	10	10		193,325
ex 131b	Preserved salmon.....	2,000	600		
ex 131b	Preserved lobster.....	2,000	1,000	6,987	
ex 131b	Sardines.....	2,000	600		
134b	Wood for building logs or rough blocks...	Free	Free		
ex 150b	Asbestos, crude.....	Free	Free		
ex 296a1	Rotary press paper.....	140	Bind		
ex 296a3	Other white paper without lignine.....	300	Bind		
	Other paper n.s.m.....	200	Bind	750	
ex 304	Synthetic rubber and waste thereof.....	Free	Free		
320d	Driving belts of rubber.....	2,000	1,000		
ex 320e1	Pneumatic tires for bicycles.....	1,500	1,500	Not separately classified	
ex 320e2	Innert tubes with outer covers; inner tubes.....	3,000	1,700	1,175	
	Outer covers.....	3,000	1,500	7,930	
330	Calf leather—except patent—				
	Vegetable tanned.....	1,530	1,100		19,230
	Mineral tanned.....	1,530	1,350		
336	Patent leather.....	1,800	800	361	
ex 356(2)	Skis.....	1,000	500	Not separately classified	
ex 358	Ski sticks.....	1,700	700		
469a	Needles for machines.....	1,200	1,200		
468a	Lead and lead alloys, crude.....	24	24		87,454
488b	Zinc, crude.....	Free	Free		281,915
ex 488d	Copper, refined.....	Free	Free	652,698	
ex 488c	Nickel, crude.....	Free	Free		6,596

STATEMENT 3—PRINCIPAL CONCESSIONS GAINED IN NON-COMMONWEALTH COUNTRIES OTHER THAN THE UNITED STATES—CZECHOSLOVAKIA—*Concluded*

Rates shown in Kcs (Crowns) per 100 kg. Crown = 2 cents

Tariff Item	Short Description	Previous Rate	Agreement Rate	Canadian Exports to Czechoslovakia	
				1937	1946
				\$	\$
ex 488f	Aluminum and alloys, crude.....	Free	Free	76,857	2,186,117
ex 448g	Cadmium.....	Free	Free		
ex 491 d1	Copper sheets and plates over 5 mm. thick.....	480	300		
2	Copper sheets and plates less than 5 mm. thick.....	600	380		
545	Storage batteries.....	1,200	Bind		
546b1	Electric carbons: Weighing each 3 kg. or over.....	40	32	6,906	202,525
ex 553 c	Autos freight not over 1,500 kgs.....	3,200	2,900		116,238
ex 553 ex b	Passenger automobiles:				
ex 1	Not over 1000 kgs; chassis parts.....	3,800	3,400		
ex 2	Over 1000 kgs: chassis parts.....	4,500	2,900		
ex 553 ex c	Trucks:				126,673
ex 1	Not over 1,500 kgs: chassis parts.....	3,200	2,900		
554	Single parts of engines.....		Various		
605	Lamp black and acetylene black.....	40	40	Not separately classified	
622d	Silicon carbide and artificial corundum..	10	10	Not separately classified	41,002
	Total above items.....			227,948	3,700,777
	Total Canadian Exports to Czechoslovakia.....			855,128	9,870,930

Note: Other important exports to Czechoslovakia in 1946 on items not scheduled.

Canned meats n.o.p.....	2,669,744
Wheat.....	680,664
Wheat flour.....	127,340
Wool blankets.....	190,296
Farm machinery.....	335,405
Donations and gifts.....	621,434
Horses, n.o.p.....	122,850

STATEMENT 3.—PRINCIPAL CONCESSIONS GAINED IN NON-COMMONWEALTH COUNTRIES OTHER THAN THE UNITED STATES—FRANCE

NOTE.—The duties of the prewar French tariff were in most cases specific. That is, they were levied on the basis of the weight or some other unit of quantity. Devaluation in the value of the franc and the greatly increased cost of imported goods has to a large extent decreased the *ad valorem* incidence of these duties. A new French tariff was announced in 1947, under which most of the duties have been converted to an *ad valorem* basis. At the same time, the whole tariff was re-written and simplified. The rates established under the new tariff are the approximate equivalent of the 1939 specific rates of the minimum tariff. Consideration was given to the fact that, before the war, imports into France of many products were limited by quota restrictions, which were adopted instead of increased duties. This tariff, was the basis for negotiations at Geneva.

Tariff Item	Short Description	Previous Rate	Agreement Rate	Canadian Exports to France	
				1938	1946
				\$	\$
1A	Horses for breeding purposes..... <i>ad val.</i>	80%	Free		
	Draught horses, admitted in the limits of an annual quota of 800 head, under the conditions laid down by a decree of the French Minister of Agriculture.....	80%	35%		
	Other horses.....	80%	45%		856,800
Ex 23A	Salmon, fresh or frozen.....	10%	10%	27,071	
24	Filletts of sea fish, fresh.....	70%	35% but not less than 25 fr. kg. gross	Not separately classified	1,201,234
32	Cheese.....	20%	15%	17,893	
Ex 67E	Seed potatoes, admitted in the limits of a quota fixed each year by decree of the French Minister of Agriculture and under the conditions laid down by said text...	30%	15%		
67J	Leguminous vegetables (French beans, beans in grains, fresh in the pod).....	25%	18%		
69A	Beans, in grains, decorticated, broken or split.....	25%	20%		
69B	Beans and horse-beans, in grains, decorticated, broken or split.....	15%	12%		59,349
75a	Furs, raw.....	Free	Free	442,376	10,868
76A	Table apples:				
	From February 15 to March 31.....	15%	8%		
	From April 1 to May 31.....	15%	6%		
	From June 1 to July 31.....	15%	8%		
	From August 1 to February 14.....	15%	12%	24,381	
80B	Dried apples and pears.....	15%	10%		
93	Wheat, spelt and meslin.....	50%	30%	3,539,194	3,020,888
	The French Government undertakes that the resale price of wheat imported by the "Office National Interprofessional des Cereales", exclusive of internal taxes, transportation, distribution and other expenses incident to the purchase and sale, and for a reasonable margin of profit, shall not exceed by more than 15% the average landed cost, duty-paid, of wheat imported during the previous quarter. Further in the event of wide fluctuations or variations in world prices, the amount of maximum protection agreed to in this item may be adjusted in order to maintain the stability of the domestic price, subject to agreement between the countries party to the negotiation.				

STATEMENT 3.—PRINCIPAL CONCESSIONS GAINED IN NON-COMMONWEALTH COUNTRIES OTHER THAN THE UNITED STATES—FRANCE—*Con.*

Tariff Item	Short Description	Previous Rate	Agreement Rate	Canadian Exports to France	
				1938	1946
98	Maize..... Groats, semolina, husked or pearled cereal grains, crushed grains and grist, flakes:	50%	30%	\$	\$
102A	Of wheat, spelt and meslin.....	50%-80%	30%		
102C	Of oats.....	50%	30%	80,916	
112F	Flaxseed for sowing, admitted in the limits of an annual quota.....	Free	Free		67,937
113C	Clover, lucern, hop clover ray-grass, sainfoin, graminaceous and other fodder seeds.....	Free	Free	46,685	113,228
146A	Linseed oil, crude.....	30%	12%		261,793 (includes flaxseed)
162A	Preserved meat in tins, etc.: Of game, poultry, rabbit, truffled or not.	15%	12%		
Ex 162B	Of pork, not truffled.....	60%	50%		
162C	Of mutton.....	60%	35%		3,189,626
Ex 162D	Not specified, not truffled.....	60%	50%		
164	Canned salmon.....	30%	25%	554,392	
165	Canned Lobster.....	15%	10%	106,252	
168A	Maple sugar and maple syrup.....	130%	30%	4,969	
190A	Tomatoes and tomato sauces, canned or bottled including in dry extract: Less than 7% (tomato juice).....	30%	18%	22	8
	From 7% inclusive to 15% inclusive.....	30%	25%		
263	Asbestos in rocks, fibres or pulverized.....	Free	Free	598,680	1,629,787
294	Ores of copper, including chalcopyrites.....	Free	Free		
299	Ores of nickel.....	Free	Free		
300	Ores of cobalt.....	Free	Free		
326	Coal tar pitch.....	Free	Free	109,509	54,854
	Petroleum heavy oils and assimilated products, lubricants with a base of petroleum products:				
336B	Spindle and lubricating fuel oil: On importation.....	24%	18%		
	On removal from controlled factories.....		Free		
349	Selenium and tellurium: Crude selenium at 99.75 per 100 or less...	20%	10%	Not Separately Classified	64,229
	Other.....	25%	25%		
Ex 404	Artificial iron oxides (containing 70 p. 100 and more in Fe ₂ O ₃).....	15%	15%	Not Separately Classified	2,600
569	Medicinal preparations used in human or veterinary medicine, not put up for retail sale.....	20%	18%	373	1,307,517
570	Medicaments used for human or veterinary medicine, put up for retail sale.....	20%	10% of selling price to the public		

STATEMENT 3.—PRINCIPAL CONCESSIONS GAINED IN NON-COMMONWEALTH COUNTRIES OTHER THAN THE UNITED STATES—FRANCE—*Con.*

Tariff Item	Short Description	Previous Rate	Agreement Rate	Canadian Exports to France	
				1938	1946
				\$	\$
573	Nitrogenous chemical fertilizers.....	16%	Free		
574	Superphosphates and ammonium phosphates.....	12%	7%		
	Other phosphated chemical fertilizers.....	12%	Free		1,955,741
577	Unspecified fertilizers.....	12%	7%		
700A	Polyvinyl acetate and other vinylic products.....	35%	35%	Not Separately Classified	46,696
711A	Artificial rubber.....	25%	Free		880,622
719	Rubber Belts (conveyor or transmission belts).....	25%	14%		7,113
724B	Inneter tubes, weighing each:				
	More than 2 kg.....	20%	18%		
	2 kg. and less.....	25%	22%		
724C	Outer covers:				
	Pneumatic tires for aircraft.....	25%	22%	57,812	48,800
	Other including tubular tires, weighing each:				
	More than 15 kg.....	20%	18%		
	15 kg. and less.....	25%	22%		
728I	Hides or skins, raw.....	Free	Free	53,409	54,972
736E	Patent or metallized leather (large bovine animals).....	25%	20%	222	
737D	Patent or metallized leather (calf).....	25%	17%		
737A	Calf skins, vegetable tanned or synthetically tanned:				
	Skins, not fat-liquored.....	15%	12%	10,346	
	Fat-liquored skins.....	15%	15%		
760	Furs, dressed:				
	Rabbit and hare, white, not dyed.....	Free	Free		
	Sea otter, nutria, and beaver.....	15%	Free	26,545	4,839
	Other.....	15%	10%		
761	Furs, made up.....	30%	30%	401	1,678
Ex 765A	Common wood, round rough (pulpwood and others).....	15%	10%		
766A	Common wood squared.....	15%	10%		
Ex 767A	Sawn common wood, unspecified over 75 mm. thick.....	20%	14%	76,010	1,358,159
779	Wood (timber), planed, grooved and (or) tongued and grooved; planks, friezes or strips for flooring, planed, grooved and (or) tongued and grooved.....	20%	18%		
Ex 794C	Wooden articles for industrial purposes, unspecified.....	8%	8%		
796	Handles for tools.....	8%	6%	5	1,614,740
798B	Small wares and cabinet makers' wares, unspecified.....	20%	15%	(Statistics cover exports of manufacture of wood n.s.p.f.)	
Ex 799B	Manufactures of common wood, unspecified	15%	10%		

STATEMENT 3.—PRINCIPAL CONCESSIONS GAINED IN NON-COMMONWEALTH COUNTRIES OTHER THAN THE UNITED STATES—FRANCE—*Con.*

Tariff Item	Short Description	Previous Rate	Agreement Rate	Canadian Exports to France	
				1938	1946
				\$	\$
Ex 822A	Paper pulp, chemical, dry: Unbleached.....	25% or 30%	22%	727,088	1,031,221
	Bleached.....	30%	24%		
Ex 827	Paper and cardboard, not specified, made on the winding machine: Containing more than 60 per cent of mechanical pulp.....	30%	25%		
	Containing 60 per cent and less of mechanical pulp, obviously of a density of less than 1.30; also without mechanical pulp.....	35%	25%		
833E	Paper and cardboard, tarred, bituminized, or asphalted.....	25%	20%		74,166
855A	Books: Stitched, bound in boards or in cloth....	Free	Free	1,258	117,267
855B	Bound in natural or artificial leather.....	30%	20%		
935	Hemp yarn or genistra yarn, pure or mixed single or twisted, not glazed, single or twisted.....	30%	20%		165,000
941	Yarn of jute or assimilated materials or of typha, pure or mixed, single or twisted, not glazed: Single.....	20%	18%		
	Twisted.....	25%	20%		
Ex 1067D	Endless fabrics or circular woven fabrics, whether or not impregnated or coated; felty fabrics for paper manufacturing and other technical uses: Of wool, pure or mixed.....	20%	20%		
	Of cotton and other.....	20%	15%		
1071	Outer clothing for men and boys.....	30%	22%	Not separately classified	450,073
1142	Rags and scraps of textile materials.....	Free	Free	6,716	867,302
1144	Footwear with natural or artificial leather or rubber soles; with uppers of natural or artificial rubber, not elsewhere specified or included, also footwear extending above the ankle.....	30%	25%	15,304	99,552
1146	Footwear with natural or artificial leather or rubber soles, with the uppers of other materials, not elsewhere specified or included: Not extending above the ankle, other than slippers with rubber soles.....	30%	22%		
	Extending above the ankle.....	30%	20%		
1310	Copper, electrolytic or thermic refined (rough lumps, ingots, plates, anodes, pellets, cathodes, wire-bars, blocks, powders, etc.).....	Free	Free	1,474,532	2,470,419

STATEMENT 3.—PRINCIPAL CONCESSIONS GAINED IN NON-COMMONWEALTH COUNTRIES OTHER THAN THE UNITED STATES—*FRANCE—Con.*

Tariff Item	Short Description	Previous Rate	Agreement Rate	Canadian Exports to France	
				1938	1946
				\$	\$
1332	Nickel, pure or alloyed with manganese, unworked:				
	Ingots, cathodes, discs, cubes, balls, pallets.....	8%	8%		
	Cast anodes.....	8%	8%		
1333	Wire, solid bars and profiles (sections) of nickel:				
	Hot-forged (spun), or rolled.....	15%	10%	99,457	2,473,571
	Drawn.....	15%	13%		
	Extruded.....	25%	22%		
Ex 1334	Sheets, slabs and bands of nickel.....	20%	8% or 18%		
1347	Aluminum, unworked.....	35%	21%		
1348	Aluminum wire, solid bars and profiles, simply rolled, hot-forged or extended.	30%	20%	125	993,615
1349	Aluminum sheets, slabs, leaves or bands..	30%	20%		
1366A	Zinc, unworked, in rough lumps (ingots, blocks, cathodes, etc., pellets, powder) ..	20%	15%	181,284	3,811,999
Ex 1368	Zinc leaves, slabs, sheets and bands, with an unworked surface.....	20%	16%		
Ex 1376A	Lead or lead alloys, unworked in ingots, rough lumps, blocks, pigs, plates and rods, not argentiferous.....	12%	10%	177,751	1,885,690
1390A	Tantalum and tantalum alloys unworked: Powder.....	40%	35%	Not separately classified	
	Rough lumps, waste and scraps of manufacture.....	15%	15%		
1393	Cobalt and cobalt alloys: Products of the first smelting (cast, matte, speiss).....	Free	Free		
	Refined in rough lumps, waste and scraps of manufacture.....	Free	Free		
1588	Machinery and appliances for preparing and draining the soil: Disc apparatus and their components....	20%	15%		
	Ploughs other than disc-ploughs and similar apparatus, and their components.....	25%	15%	94,521	906,001
	Cultivators and similar apparatus, including "Canadian-harrows" and their components.....	20%	15%		
1590	Harvesting and hay-making machinery: Reaping and binding machines.....	25%	15%		
	Reaping and threshing machines.....	25%	12%	94,521	906,001
1591A	Grain threshers (cereals and seeds).....	25%	15%		
1630A	Heads of sewing machines: Domestic sewing machines, with or without electric motor.....	25%	16%		
	Industrial machines.....	30% -20%	12%		

STATEMENT 3.—PRINCIPAL CONCESSIONS GAINED IN NON-COMMONWEALTH COUNTRIES OTHER THAN THE UNITED STATES—FRANCE—*Conc.*

Tariff Item	Short Description	Previous Rate	Agreement Rate	Canadian Exports to France	
				1938	1946
				\$	\$
1721	Insulators: Of porcelain, earthenware, stoneware, pottery, with or without metal parts..	25%	18%		
	Of rubber, hardened or not, with or without metal parts.....	25%	20%	Not separately classified	
1718A, B & D	Locomotives, loco-tractors, and rail-cars for track of 0m60 and less gauge: With steam engines, including tender-locomotives; with explosion or internal combustion engines; locomotives propelled by compressed air and other....	20%	18%		
1781C	Electric.....	25%	20%		6,099,350
1797	Passenger automobiles.....	70%	35%	589	2,219
1798A	Motor trucks.....	70%	35%		10,116,064
1802	Automobile parts, except:				
1804	Shock absorbers.....	70%	30%		
1804D	Shock absorbers.....	70%	25%	2,049	4,981,454
1817A	Sea-going vessels with a gross tonnage of more than 250 tons.....	Free	Free		4,105,000
1828	Aircraft (aeroplanes, seaplanes, helicopters, gliders, etc.) with or without engines, weighing empty: More than 1,500 kg.....	35%	25%		692,023
	1,500 kg. and less.....	35%	35%		
	Total above items.....			8,557,137	59,156,064
	Total Canadian exports to France.....			9,152,226	74,380,394
	Other Canadian exports to France, on items not scheduled:				
	Railway rails.....				1,457,858
	Silver bullion.....				1,215,350
	Calcium compounds.....				1,481,397

STATEMENT 3—PRINCIPAL CONCESSIONS GAINED IN NON-COMMONWEALTH COUNTRIES OTHER THAN THE UNITED STATES—NORWAY

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Tariff Item	Short Description	Previous Rate	Agreement Rate	Canadian Exports to Norway	
				1939	1946
				\$	\$
ex 138	Lobster, canned.....	per kg. 1.50 kr.	per kg. 0.75 kr.	11,413	.....
ex 139	Salmon, canned.....	per kg. 0.60 kr.	per kg. 0.30 kr.	315	.....
143	Salmon, salted.....	per kg. 0.40 kr.	per kg. 0.30 kr.	75,443	.....
176	Carbon electrodes for electric smelting furnaces.....	Free	Free	194,387	42,446
	Apples:				
213	August 1 to February 15.....	per kg. 0.80 kr.	per kg. 0.80 kr.	.....	.....
214	February 16 to March 15.....	per kg. 0.80 kr.	per kg. 0.40 kr.	.....	.....
215	March 16 to July 31.....	per kg. 0.40 kr.	per kg. 0.20 kr.	.....	.....
408	Barley.....	Free	Free	81,258	.....
411	Oats.....	Free	Free	55,653	.....
412	Wheat.....	Free	Free	2,977,146	3,907,637
414	Malt.....	per kg. 0.10 kr.	per kg. 0.05 kr.	.....	.....
415	Rye.....	Free	Free	526,485	834,831
424	Wheat flour.....	Free	Free	492,674	3,078,334
ex 516	Aluminum crude.....	Free	Free	4,272	.....
ex 516	Copper, crude in pigs and bars....	Free	Free	19,133	.....
635	Nickel copper matte.....	Free	Free	4,086,592	3,997,027
656	Cheese.....	per kg. 1.20 kr.	per kg. 1.20 kr.	2,452	.....
ex 954	Aircraft.....	24%	12%	.....	256,703
ex 954	Automobile trucks, also bodies and chassis therefor and motors for automobiles and aircraft.....	24%	20%	.....	1,010,508
ex 955	Automobile and aircraft parts....	40%	25%	2,121	331,546
ex 957	Auto tire casing.....	per kg. 0.60 kr.	per kg. 0.60 kr.	65,333	5,188
	Total above items.....			8,594,677	13,464,220
	Total Exports to Norway.....			10,903,889	19,266,569

NOTE—Exports of ships to Norway in 1946 were valued at \$4,411,000.
There was no concession on ships.

STATEMENT 3—PRINCIPAL CONCESSIONS GAINED IN NON-COMMONWEALTH COUNTRIES OTHER THAN THE UNITED STATES—SYRIA-LEBANON

Tariff Item	Short Description	Previous Rate	Agreement Rate	Canadian Exports to Syria-Labanon	
				1938	1946
				\$	\$
103a	Cod liver oil.....	11%	11%		
117	Meat preserves (except salted, smoked or simply preserved).....	25%	25%		
120	Preserved fish (except salted, dried or smoked).....	25%	25%		
125	Confectionery.....	40%	30%		1,854
218a	Industrial nitric acid.....	11%	11%	Not separately classified	
306a	Lithopone and zinc oxide.....	11%	11%	Not separately classified	
306b	Other dry mineral colours.....	25%	25%		
292	Prepared medicines.....	11%	11%		
309e	Toothpastes and powder.....	50%	25%	344	8,414
309d/e	Other cosmetic articles.....	50%	40%		
375b	Tires and tubes.....	25%	15%	28,952	4,974
377	Rubber articles n.o.p.....	25%	25%	144	443
419c	Newsprint paper.....	Free	Free		15,152
436c	Books (except text books).....	25%	25%		15282,
604b	Rubber boots.....	25%	25%		
642	Manufactures of asbestos.....	25%	25%	3,144	3,290
709/11	Pipes and tubes of iron.....	11%	11%		
812a	Lamps of common metal.....	25%	25%		
812b	Same, same gilded, plated, etc.....	40%	30%		278
834/6	Agricultural machines.....	Free	Free	1,612	9,077
839 etc.	Various industrial machinery.....	7½% -25%	1%		1,588
849	Machine tools.....	7½%	1%		
852	Typewriters.....	25%	20%		
853	Calculating machines.....	25%	20%		
861	Storage batteries.....	25%	20%	4,810½	
868	Radio apparatus.....	40%	25%		3,723
874	Insulated cables and wire.....	25%	20%	67	26
878	Electric apparatus, n.o.p.....	25%	20%		1,686
890	Passenger automobiles.....	Various according to weight and H.P.	140 piastres per kg. (provisional rate)		1,727
893	Auto parts.....	9·6 to 24 piastres per kg. with minimum of 25%	No change		211

STATEMENT 3—PRINCIPAL CONCESSIONS GAINED IN NON-COMMONWEALTH
COUNTRIES OTHER THAN THE UNITED STATES—*SYRIA-LEBANON*—Conc.

Tariff Item	Short Description	Previous Rate	Agreement Rate	Canadian Exports to Syria-Labanon	
				1938	1946
				\$	\$
915 etc.	Various scientific apparatus.....	25%	15%		243
982	Fountain pen and mechanical pencils.....	40%	25%	267	3,646
	Total above items.....			39,340	71,613
	Total Canadian Exports to Syria.....			63,616	227,507
	Other Canadian Exports to Syria and Lebanon on items not scheduled:				
	Undressed furs.....			7,061	26,549
	Rubber hose.....				2,166
	Patent leather.....			9,629	5,599
	Book paper.....				12,743
	Wrapping paper.....				4,905
	Bond and writing paper, uncut.....				14,330
	Stoves, gasoline or oil.....				1,678
	Parts of stoves.....				1,380
	Jewellers sweepings and scrap.....				48,092
	Spark plugs and ignition apparatus.....			918	7,339

STATEMENT 4.—PRINCIPAL CONCESSIONS GAINED IN INDIA AND PAKISTAN

Rupee (16 Annas)=30·22 cents Canadian

cwt.=112 lbs.

Tariff Item	Short Description	Previous Rate	Agreement Rate	Canadian Exports to India	
				1939	1946
				\$	\$
ex 4(1)	Milk, condensed or preserved	30%	25%	22,269	328,681
ex 7	Dehydrated vegetables (except tomatoes, onions, potatoes and cauliflowers)	36%	30%	.....	823,080
ex 8	Apples and pears, fresh	36%	30%	.....	.....
12	Grass and clover seeds	30%	15%	.....	.....
16(1)	Canned fish	30%	20%	42,864	157,823
ex 21	Soups, canned or bottled	30%	25%	11,062	12,256
ex 28	Penicillin and its products	36%	30%	Not separately classified	
ex 40	Douglas fir timber	30%	20%	.....	.....
ex 45	Fountain pens, complete	30%	30%	34	442,413 (includes pencils)
ex 68(1)	Zinc, unwrought	Free	Free	43,427	52,417
70(1)	Copper, unwrought	Free	Free	249,644	861,527
ex 71	Stoves for use with kerosene, gasoline or other liquid fuels and burners	30%	20%	.....	13,430
ex 72	Boot and shoe manufacturing machinery	10%	10%	Not separately classified	158,319
ex 72	Metal working machinery	10%	10%	17,373	21,527
72(5)	Domestic refrigerators and parts	36%	30%	2,063	.....
72(8)	Ploughs and parts	Free	Free	1,617	58,282
	Agricultural tractors and parts	Free	Free	Not separately classified	
	Hay presses	Free	Free		
72(9)	Milking machinery	Free	Free	.....	75,843
73(2)	Carbons, electric	30%	20%	34,418	125
74(2)	Wooden railway sleepers	18½%	15%	.....	.....
75	Motor vans and lorries, complete	India undertakes to eliminate the preference extended the United Kingdom over a period of years. The margin is not to exceed 6 per cent <i>ad valorem</i> during the first 3 years of the agreement nor 3 per cent from the beginning of the fourth year, and the preference is to be eliminated entirely from the beginning of the seventh year. The schedule contains no undertaking respecting the rate of duty under the m.f.n. or preferential tariffs.			
75(1)	Motor cars and parts				
75(3)	Buses, chassis and truck chassis				
				2,647,934	3,593,038

STATEMENT 4.—PRINCIPAL CONCESSIONS GAINED IN INDIA AND PAKISTAN—Conc.

Tariff Item	Short Description	Previous Rate	Agreement Rate	Canadian Exports to India	
				1939	1946
				\$	\$
76	Aircraft and parts.....	3%	3%		127,286
	Total above items.....			3,072,705	6,706,470
	Total Canadian Exports to India and Pakistan.....			5,165,873	49,045,795
	Other Canadian Exports to India and Pakistan on items not scheduled:				
	Wheat.....			173,482	20,109,542
	Oats.....			1,050	1,496,107
	Newsprint.....			130,375	1,477,584
	Oatmeal and rolled oats.....			126,604	133,023
	Locomotives and parts.....				3,181,369
	Railway cars, coaches and parts.....				6,673,799
	Aluminum bars, rods, sheets.....			63,249	2,473,491
	Fertilizers, manufactured.....			328	938,528
	Tires, motor vehicle.....			412,377	409
	Inner tubes, motor vehicles.....			33,435	59

STATEMENT 5—ITEMS OF IMPORTANCE TO CANADA IN THE UNITED KINGDOM AND DOMINIONS' TARIFFS ON WHICH PREFERENTIAL MARGINS WERE REVISED BY THE GENERAL AGREEMENT ON TARIFFS AND TRADE—UNITED KINGDOM

BANKING AND COMMERCE

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Item	Item	Previous Rates		Geneva Agreement		Imports 1938	
		To Canada	Full	To Canada	Full	From Canada	Total
4	Apples, imported from Aug. 16 to April 15 in any year.....	Free	3s. cwt.	Free	Free	£ 2,419,649	£ 6,015,173
31(4) (i) (b) (1)	Fruit dried without sugar; apples, pears, peaches and nectarines.	Free	If valued not over £3 10s. cwt.; 7s. cwt.; otherwise 10% ad val.	Free	Free	2,322	105,978
4	Peaches preserved in syrup.....	Free	15%	Free	12% Plus sugar duty on added sugar content in each case.	36,823	1,443,305
4	Pears, preserved in syrup.....	Free	15%	Free	12% Plus sugar duty on added sugar content in each case.	167,265	1,454,420
31(4) (ii) (a) (2)	Cherries, stoned, preserved in sugar, or syrup, with or without added flavouring matter...	Free	15%	Free	10% Plus sugar duty on added sugar content in each case.	8,197	13,550
Ex 3(7)(ii)	Beans in airtight containers with or without flavouring, but not including beans in pod...	Free	20%	Free	10%	328,470 ¹	415,341 ¹
Ex 31(7)(ii)	Peas in airtight containers.....	Free	20%	Free	10%	N.S.S.	27,413
Ex 31(7)(ii)	Vegetables, preserved in airtight containers other than tomatoes, peas, maize, beans and asparagus.....	Free	20%	Free	15%	35,720 ¹	230,221 ¹
4	Honey.....	Free	5s. cwt.	Free	3s. 6d. cwt. or, if higher, 10% but not more than 5s. cwt.	63,094	189,176

¹ Statistical classification not identical with tariff item.

² The Government of the United Kingdom shall be free to maintain until September 1, 1948, the rates in force at the date of the Geneva Agreement.

STATEMENT 5—ITEMS OF IMPORTANCE TO CANADA IN THE UNITED KINGDOM AND DOMINIONS' TARIFFS ON WHICH
PREFERENTIAL MARGINS WERE REVISED BY THE GENERAL AGREEMENT ON TARIFFS AND TRADE—UNITED KINGDOM
—Continued

Item	Item	Previous Rates		Geneva Agreement		Imports 1938	
		To Canada	Full	To Canada	Full	From Canada	Total
6	Tobacco.....	53s. 3½d. per lb.	54s. 10d. per lb.	<p>(1) If at any future time the rate of ordinary MFN customs duty upon tobacco unmanufactured, unstripped, containing 10 lb. or more of moisture in every 100lb. weight thereof does not exceed 45s. 2d. per lb., such tobacco shall thereafter be exempt from ordinary MFN customs duties which exceed the preferential duties thereon by more than 1s. 3d. per lb.</p> <p>(2) If at any future time the said MFN rate chargeable on such tobacco does not exceed 35s. 6d. per lb., such tobacco shall therefore be exempt from ordinary MFN customs duties which exceed the preferential duties thereof by more than 1s. per lb.</p> <p>Only basic rates are given. These apply to tobacco, unmanufactured, unstripped, containing 10 lb. or more of moisture in every 100 lb. weight thereof. Rates on all other tobaccos, unmanufactured or manufactured, are calculated with reference to these rates.</p>		£	£
						1,165,730	22,712,606
3 G.A.V.	Salmon preserved in airtight containers.....	Free	10%	Free	5%	772,299	4,616,019
(4)	Chilled or frozen salmon.....	Free	3d. lb.	Free	Free	203,056	624,249
G.A.V.	Pigs tongues preserved in airtight containers.....	Free	10%	Free	Free	7,887	696,964

					Agreement/eliminates preference and binds rate to M.F.N. against increase above 10%. For the time being this item is free from all sources.		
3 G.A.V.	Canned, ground, or chipped meat consisting wholly of pork.	Free	10%	Free	5%	59,635 (All tinned pork products).	1,218,902
3 G.A.V.	Sausage casings, hog, natural of a value exceeding £10 per cwt.	Free	10%	Free	Agreement binds rate to M.F.N. against increase above 10% and margin of preference at not more than 5%.		1,231,410
3V(2)(i)	Pig iron as specified.....	Free	33½%	Free	25%	36,599	1,204,162
EX 3V III(4) and EX 3X(1)	Circular saws for cutting metal as specified.....	Free	20%	Free	15%	N.S.S.	50,392
EX 3VIII(4) EX 3X(1)	Hacksaw blades, bandsaw blades, jigsaw blades, fretsaw blades.....	Free	20%	Free	15%	N.S.S.	77,470
EX 3VIII(4) EX 3X(1)	Files and rasps as specified.....	Free	20%	Free	15%	46,180	66,454
EX 3VIII(5)	Alarm clocks valued not less than 12s. each.....	22½%	33½%	16½% or if higher 2s. 8d. each	25% or if higher 4s. each.	N.S.S.	N.S.S.
31X(2)(ii) 31X(2)(iii)	Electrical cooking and heating apparatus as specified.....	Free	15%	Free	10%	39,034	174,883
3X(2)(xviii) and 3X(2)(xix)	Parts of office machines as specified.....	Free	20%	Free	15%	97,615	666,044

¹ Statistical classification not identical with tariff item.

² The Government of the United Kingdom shall be free to maintain until September 1, 1948, the rates in force at the date of the Geneva Agreement.

STATEMENT 5—ITEMS OF IMPORTANCE TO CANADA IN THE UNITED KINGDOM AND DOMINIONS' TARIFFS ON WHICH
PREFERENTIAL MARGINS WERE REVISED BY THE GENERAL AGREEMENT ON TARIFFS AND TRADE—UNITED KINGDOM

—Continued

Item	Item	Previous Rates		Geneva Agreement		Imports 1938	
		To Canada	Full	To Canada	Full	From Canada	Total
Ex 3X(2)(iii)	Typewriters over 22 lbs.....	Free	Valued not over £6 each, £2. 10s. each; £6 valued over £6 each, 4 10s. each.	Free	£2 each or, if higher, 20% but not more than £3 10s. each.	£ 135, 712 ¹	£ 455, 087 ¹
3X(2)(xiv)	Cash registers.....	Free	15%	Free	10%	188, 567	306, 833
Ex 3X(1)	Cash register parts as specified.....	Free	20%	Free	10%		
3X(2)(xiv)	Refrigeration machinery over 12 cu. ft. storage capacity.....	Free	20%	Free	15%	N.S.S.	N.S.S.
Ex 3X(1)	Glass-working machines as specified.....	Free	20%	Free	15%	27, 559 ¹	91, 575 ¹
3X(2)(xxix)	Rolling mill (metal-working) machinery, as specified.....	Free	33½%	Free	25%	6	659, 315
3-XI-8	Wood and timber as specified: 11 ins. or more in width throughout its length.....	Free	16s. per standard	Free	8s. per standard		
3-XI-8	Wood and timber as specified: Less than 11 ins. in width throughout its length and of a value of £18 or more per standard.....	Free	16s. per standard	Free	8s. per standard		
3-XI-8	Wood and timber as specified: Less than 11 ins. in width throughout its length, and of a value of £16 12s. or more, but less than £18 per standard.....	Free	Valued at £16 12s. or more but less than £17 per standard: 10%	Free	10% less 1% for each 4s. by which value exceeds £16 18s. per standard	4, 054, 163	19, 724, 410

3-XIII-1	Articles of apparel as specified, consisting wholly of cotton.	Free	Valued at £17 or more but less than £18 per standard: 10% less 1% for each 4s. by which value exceeds £16. 16s. per standard	Free	20% If containing lace, embroidery, etc., 30%	17½% or if higher 1s. 9d. each. If containing lace, embroidery, etc., 25%	N.S.S.	N.S.S.
6	Stockings and socks made wholly of silk or containing silk components the value of which exceeds 20% of the aggregate of the values of all the components thereof.....	28½% or if higher 8s. per lb. but not more than 8s. 4d. per doz. pairs	43½% or if higher 12s. per lb. but not more than 10s. per doz. pairs	27½% or if higher 10s. per doz. pairs ⁽²⁾	33½% or if higher 12s. per doz. pairs ⁽²⁾	87,041	432,076	
6	Stockings and socks (containing no silk) made wholly of artificial silk or containing artificial silk components the value whereof exceeds 20% of the aggregate of the values of all the components: Where all the artificial silk consists of regenerated cellulose or cellulose acetate	35% or if higher 3s. 10½d. per lb.	42% or if higher 4s. 8d. per lb.	30% or if higher 6s. 9d. per doz. pairs	30½% or if higher 7s. 6d. per doz. pairs	N.S.S.	1,347,671 ¹	
6	Stockings and socks (containing no silk) as above: Where none of the artificial silk consists of regenerated cellulose or cellulose acetate.....	35% or if higher 3s. 10½d. per lb.	42% or if higher 4s. 8d. per lb.	30% or if higher 9s. per doz. pairs	33½% or if higher 10s. per doz. pairs	N.S.S.	162,753	
3-XIII-1	Undergarments as specified, containing lace or embroidery.....	Free	30%	Free	25% If containing silk or artificial silk, silk duties apply.	8,696		

¹ Statistical classification not identical with tariff item.² The Government of the United Kingdom shall be free to maintain until September 1, 1948, the rates in force at the date of the Geneva Agreement.

STATEMENT 5—ITEMS OF IMPORTANCE TO CANADA IN THE UNITED KINGDOM AND DOMINIONS' TARIFFS ON WHICH
PREFERENTIAL MARGINS WERE REVISED BY THE GENERAL AGREEMENT ON TARIFFS AND TRADE—UNITED KINGDOM
—Concluded

Item	Item	Previous Rates		Geneva Agreement		Imports 1938	
		To Canada	Full	To Canada	Full	From Canada	Total
3-XIII-1	Corsets and similar body supporting undergarments and brassieres.....	Free	20%	Free	15% If containing silk or artificial silk, silk duties would apply	£ 36,639	£ 156,345
3 XIII-5-ii	Hats of felt as specified.....	Free	3s. per doz. or if higher 30%.	Free In containing silk or artificial silk, silk duties would apply.	5s. per doz. or if higher 25%.	N.S.S.	128,417
3XIII(2)(i)	Men's footwear as specified.....	Free	20%	Free If containing silk or artificial silk, silk duties would apply.	15%	601,437	1,080,409
3XIII(2)(iii)	Women's footwear as specified.....	Free	Valued over 10s. pair, 2s. pair, or if higher, 15%. Other 20%.	Free If containing silk, silk duties would apply.	3s. pair or if higher 10%.	42,782	1,228,471
3XIV(6)(iv)	Toilet soap.....	Free	30%	Free	25%	525,523	533,753
3 G.A.V.	Maize starch valued over 10s. cwt.....	Free	10%	Free	7½% or, if higher, 1s. per cwt.	N.S.S.	385,539
3 XV(3)(iii)	Tubing and piping partly or rubber, balata, or gutta percha.....	Free	1½d. lb. or if higher, 15%.	Free	10%	9,719	31,082
3XVI(8)	Paper dress patterns including their envelopes...	Free	15%	Free	10%	N.S.S.	N.S.S.
3XVI(9)	Face and hand towels wholly of paper, as specified	Free	16½%	Free	10%	N.S.S.	N.S.S.
3XVI(10)	Serviettes and handkerchiefs wholly of paper, as specified.....	Free	16½%	Free	10%	N.S.S.	N.S.S.

Ex 3XVII(2)(i) (a)	Motor vehicles: Agricultural tractors (not track- laying).	10%	15%	15% (2)	15% (2)	Nil	12,589
3XVIII(2)(i)	Toilet preparations as specified.....	Free	20%	Free	15%	62,086	158,034
6	Dresses and skirts wholly of silk or containing more than 20% by value of silk or silk and- artificial silk.....	36½% or if higher 10s. per lb.	43½% or if higher 12s. per lb.	33½% or if higher 15s. per lb.(2)	33½% or if higher 15s. per lb.(2)		
6	Dresses and skirts wholly of artificial silk or con- taining more than 20% by value of artificial silk, but no silk.....	35% or if higher 3s. 10-d. per lb.	42% or if higher 4s. 8d. per lb.	30% or if higher 6s. 9d. per lb.(2)	30% or if higher 6s. 9d. per lb.(2)	46,292	575,071

¹ Statistical classification not identical with tariff item.

² The Government of the United Kingdom shall be free to maintain until September 1, 1948, the rates in force at the date of the Geneva Agreement.

STATEMENT 5.—ITEMS OF IMPORTANCE TO CANADA IN THE UNITED KINGDOM AND DOMINIONS' TARIFFS ON WHICH PREFERENTIAL MARGINS WERE REVISED BY THE GENERAL AGREEMENT ON TARIFFS AND TRADE—AUSTRALIA

Item	Item	Previous Rates		Geneva Agreement		Imports 1939	
		To Canada	M.F.N.	to Canada	M.F.N.	From Canada	Total
51B	Fresh fish, smoked or dressed (but not salted) or preserved by cold process.....	1d. per lb. + 10% primage	1½d. per lb. + 10% primage	1d. per lb.	1d. per lb.	£ 3,471	£ 281,194
51C (1)	Canned salmon.....	1d. per lb. + 10% primage	4d. per lb. + 10% primage	1d. per lb.	2½d. per lb.	358,301	571,787
51C (3)(a)	Canned sardines n.e.i. sild, bristling and similar small immature fish.....	1d. per lb. + 10% primage	3d. per lb. + 10% primage	1d. per lb.	2d. per lb.	23,042¹	145,578¹
51C (4)	Canned fish other than salmon and sardines.....	1d. per lb. + 10% primage	3d. per lb. + 10% primage	1d. per lb.	3d. per lb.	15,717	110,492
105A (1)(a) (1)	Cotton piece goods, grey, unbleached, not being printed, dyed or coloured.....	½d. per sq. yd. or if higher 5%	1¼ per sq. yd.	½d. per sq. yd. or if higher 5%	¾ per sq. yd.	134,360	444,743
105A (1)(a) (2)	Cotton piece goods, bleached, not being printed, dyed or coloured.....	½d. per sq. yd. or if higher 5%	1½ per sq. yd.	½ per sq. yd. or if higher 5%	1d. per sq. yd.	1,608	694,839
106B	Trimmings and ornaments n.e.i. for hats, shoes and other attire not being partly or wholly of gold or silver; braids n.e.i.; frillings; ruffings; pleatings; ruchings; galoons n.e.i.; ribbons n.e.i.; tinselled belting n.e.i.; webbings n.e.i.; belting for apparel n.e.i. and not being cut to lengths for belts; jabots and textile bows, being articles of women's attire.....	Free + 5% primage	20% + 5% primage	Free	15%	1,741	181,288
110A5(b)	Dresses of wool or containing wool.....	12s. 6d. ea. + 37½% or if higher 60% + 5% primage in each case	12s. 6d. ea. + 37½% or if higher 60% + 10% primage in each case	12s. 6d. ea. + 30% or if higher 50%	12s. 6d. ea. + 30% or if higher 50%	333¹	14,709¹
113B	Textile gloves and mitts; gloves n.e.i. (except rubber, harvesting, driving, housemaids and gardening).....	Free + 10% primage	20% + 10% primage	Free	15%	1,323¹	14,975¹

EX118C	Felt base floor coverings having a similar surface to linoleums.....	20% + 5% primage	37½% + 10% primage	20% bound	30%	20,923 ²	470,277 ²
137A(2)	Aluminum angles, bars, pipes, plates, rods, sheets, strips, tees and tubes, not further manufactured than plated, polished or decorated.....	15% + 5% primage	30% + 10% primage	15%	30%	5,545	117,746
169A(2)	Typewriters.....	Free + 10% primage	20% + 10% primage	10%	20%	132,904	224,157
179A(1)	Electric cooking and heating appliances: Stoves, ranges, ovens, cookers, grillers, boiling plates, boiling rings and the like, including elements therefor whether imported separately or forming part of a complete appliance.....	30% + 5% primage	57½% + 10% primage	25%	45%	25,713	80,221
Ex 179D(1)(d)	Electric motors under 1 h.p. when not integral parts of machines.....	30%	50%	25%	40%	51,203	171,931
181A(2)	Valves for wireless telegraphy and telephony, including rectifying valves.....	4s. 3d. ea. or if higher 20% + 10% primage	6s. ea. or if higher 40% + 10% primage	4s. 3d. ea. or if higher 20%	5s. 6d. ea. or if higher 40%	448	139,672
P. 215B(1)	Band saws.....	30% + 5% primage	50% + 5% primage		54 0/10%	184	23,757
P. Ex 231 (E)	Gas Carbon black.....	2s. per 112 lbs. or if higher 10%	3s. per 112 lbs. or if higher 25%	Free	Free	N.S.S.	N. S.S.
Ex.244A	Locket, brooch and watch glasses.....	Free + 5% primage	20% + 10% primage	Free	10%	6,541	34,609
291H(1)	Undressed timber ⁽³⁾ in sizes 12" x 6" (or its equivalent) or over.....	10s. 6d. per 100 super ft. + 10% primage.	12s. 6d. per 100 super ft. + 10% primage	6s. per 100 super ft. ⁽⁵⁾	7s. per 100 super ft. ⁽⁵⁾	56,112	56,112
291H(2)	Undressed timber ⁽⁴⁾ in sizes 7" x 2½" (or its equivalent) and upwards, and less than 12" x 6" (or its equivalent).....	12s. per 100 super ft. + 10% primage	14s. per 100 super ft. + 10% primage	9s. per 100 super ft. ⁽⁵⁾	10s. per 100 super ft. ⁽⁵⁾	23,384	77,959

STATEMENT 5—ITEMS OF IMPORTANCE TO CANADA IN THE UNITED KINGDOM AND DOMINIONS' TARIFFS ON WHICH
PREFERENTIAL MARGINS WERE REVISED BY THE GENERAL AGREEMENT ON TARIFFS AND TRADE—AUSTRALIA

—Continued

Item	Item	Previous Rates		Geneva Agreement		Imports 1939	
		To Canada	M.F.N.	to Canada	M.F.N.	From Canada	Total
291H(3)	Undressed timber in sizes less than 7" x 2½" (or its equivalent).....	13s. 6d. per 100 super ft. + 10% primage	15s. 6d. per 100 super ft. + 10% primage.	12s. per 100 super ft. ^(c)	13s. per 100 super ft. ^(c)	£ 8,677	£ 249,549
291J	Timber for making boxes being cut to size and dressed or partly dressed.....	14s. per 100 super ft. + 10% primage.	16s. per 100 super ft. + 10% primage.	14s. per 100 super ft. ^(c)	15s. per 100 super ft. ^(c)	78,993	122,261
291N(1)	Veneers, the value for duty of which does not exceed 25s. per 100 sq. ft.....	27½% + 5% primage.	42½% + 10% primage.	Shall not exceed 25%	35%	3,326	30,111
291N(2)	Veneers the value for duty of which exceeds 25s. per 100 sq. ft.....	8s. per 100 sq. ft. + 5% primage.	10s. 7½d. per 100 sq. ft. + 10% primage.	8s. per 100 sq. ft.	10s. 7½d. per 100 sq. ft.	See item 291N(1)	
293A	Timber, undressed in sizes less than 7' 6" x 10½" x 2½" for use in the manufacture of doors.....	4s. per 100 super ft. + 10% primage.	6s. per 100 super ft. + 10% primage.	4s. per 100 super ft.	5s. per 100 super ft.	21,005	38,921
294(A)	Staves, undressed, n.e.i.....	8s. per 100 + 10% primage.	10s. per 100 + 10% primage.	8s. per 100 ^(c)	9s. per 100 ^(c)	7,663	20,688
294(B)	Staves, dressed or partly dressed, but not shaped	11s. per 100 + 10% primage	13s. per 100 + 10% primage	11s. per 100 ^s	12s. per 100 ^s	N.S.S.	36,197
294(C)	Staves, undressed, as prescribed by Departmental By-law.....	Free	Free + 4% primage	Free	Free (bound)	See item 294(A)	
310A(1)	Cricket bats, blades and balls.....	25% + 5% primage	67½% + 10% primage	25% (bound)	50%	N.S.S.	9,190

310(B)	Toys.....	25% + 10% primage	60% + 10% primage	20%	50%	10, 928	1882, 40
329	Women's and children's boots and shoes.....	25% + 5% primage	60% + 10% primage	25% (bound)	45%	5, 414	48, 082
334F(1)	Writing and typewriting paper, irrespective of size or shape, but not ruled or printed in any way. In rolls less than 13' in width; in sheets less than 21' in length or less than 16½' in width	30% + 5% primage	55% + 10% primage	30%	55%	52, 448½	497, 602½
334Q(1)	Strawpaper and strawboard other than corrugated, and boards n.e.i., of which the f.o.b. price per ton is, or is the equivalent of in sterling;—not more than £7.....	£1.10s. per ton + 5% primage.	£4 per ton + 10% primage.	£1.10s.	£3.5s.	14, 333(½)	230, 492(½)
334Q(2)	Strawpaper and strawboard other than corrugated and boards, n.e.i., of which the f.o.b. price per ton is, or is the equivalent of, in sterling; more than £7, but not more than £17	£1.10s. per ton + 4s. per ton for each £1 by which the f.o.b. price exceeds £7 sterling + 5% primage.	£4 per ton + 10s. 9d. per ton for each £1 by which the f.o.b. price exceeds £7 sterling + 10% primage.	£1.10s. per ton + 4s. per ton for each £1 by which the f.o.b. price exceeds £1 sterling.	£3.5s. per ton + 9s. 6d. per ton for each £1 by which the f.o.b. price exceeds £7 sterling.	See item 334Q(1)	
Ex.351B(2)	Valves for pneumatic tyres, other than valves of the rubber sleeve type.....	Free + 10% primage.	15% + 10% primage.	Free	10%	18, 616	87, 230
359D(4)(a)	Chassis, including lamps but not including rubber tyres and tubes, storage batteries, shock absorbers (except steering dampers) bumper bars, radiator assemblies sparking plugs and springs unassembled; viz.: car and car type capable of use for commercial vehicles.....	2½d. per lb. + 7d per lb.	5½d. per lb. + 7d per lb.	3d. per lb. (c)	5d per lb. (c)	1, 321, 831	4, 553, 387
359D(4)(c)	Chassis including lamps, but not including rubber tyres and tubes, storage batteries, shock absorbers (excepting steering dampers) bumper bars, radiator assemblies, sparking plugs and springs—assembled.....	4d. per lb. + 7d per lb.	7d. per lb. + 7d. per lb.	4½d. per lb. (c)	6½d. per lb. (c)	6, 438	126, 489

STATEMENT 5.—ITEMS OF IMPORTANCE TO CANADA IN THE UNITED KINGDOM AND DOMINIONS' TARIFFS ON WHICH
PREFERENTIAL MARGINS WERE REVISED BY THE GENERAL AGREEMENT ON TARIFFS AND TRADE—AUSTRALIA
—Concluded.

Item	Item	Previous Rates		Geneva Agreement		Imports 1939	
		To Canada	M.F.N.	to Canada	M.F.N.	From Canada	Total
						£	£
359D (4) (b)	Chassis including lamps, but not including rubber tires and tubes, storage batteries, shock absorbers (except steering dampers) bumper bars, radiator assemblies, sparking plugs and springs: Unassembled, viz.—Truck, omnibus or other commercial vehicle.....	2½d. per lb. + 7d. per lb.	4½d. per lb. + 7d. per lb.	2½d. per lb. (8)	4½d. per lb. (8)	565,944	1,737,073
359F (1)	Vehicle parts n.e.i., including axels n.e.i., springs n.e.i., hoods, wheels n.e.i. and bodies n.e.i.....	40% + 5% prim- age.	60% + 10% primage.	30%	50%	86,622 (1)	494,042 (1)
359F (3)	Motor vehicle gears imported separately.....	40% and 2s. 3d. per lb. + 10% primage.	40% and 2s. 3d. per lb. + 10% primage.	37½% and 2s. per lb.	37½d. % and 2s. per lb.	3,306	31,021
359F (4)	Motor vehicle parts, viz.:—shackle bolts, pins, and assemblies, spring hangers, king pins, tie rod pins, tie rod ball pins, tie rod ball studs.....	6d. per lb. or if higher 20% + 5% primage.	1s. 9d. per lb. or if higher 51½% + 10% primage.	6d. per lb. or if higher 30%.	1s. per lb. or if higher 30%.	See item 359F (1)	
(9)	Axel shafts and propeller shafts for motor vehicles	4d. per lb. or if higher 25% + 5% primage.	8d. per lb. or if higher 53½% + 10% primage.	4d. per lb. or if higher 25% (bound).	7d. per lb. or if higher 40%	See item 359 F (1)	
359F (10)	U-bolts for motor vehicles.....	6s. 9d. per cwt. or if higher 25% + 5% primage.	13s. 9d. cwt. or if higher 53½% + 10% primage.	20%	35%	See item 359 F (1)	
359G (2)	Bumper bars for motor vehicles.....	30% + 5% primage.	60% + 10% primage.	30% bound.	40%	N.S.S.	N.S.S.
Ex 382	Cameras.....	Free + 10% primage.	20% + 10% primage.	Free	Free	24,303	170,293

Ex 176F (1)	Machines and machinery as specified.....	33½% + 5% primage.	65% + 10% primage.	30% ad val.	50% ad val.	26,735	1,077,533
Ex 187F (1)	Air or gas compressors as specified.....	33½% ad val. + 5% primage.	65% ad val. + 10% primage.	22½% ad val.	42½% ad val.	4,186	4,504
176F (2) (a)	Refrigerators and parts.....	42½% + 5% primage.	75% + 10% primage.	35%	55%	45,384	140,008
380A (2)	Carpet sweepers.....	50% + 5% primage.	60% + 10% primage.	50%	55% + 5% primage.	9,722 ⁽¹⁾	26,345 ⁽¹⁾
Unspecified	Asbestos, crude.....	Free	Free + 4% primage.	Free	Free (bound).	95,941	178,494

NOTES:

(1) Statistical classification not identical with tariff item.

(2) Statistics cover "Linoleums and Floor Coverings having a surface similar to Linoleums". These rates only refer to felt based floor coverings. The whole item appears in Part II of the Schedule and the Commonwealth rate is bound at 20%.

(3) The former specifications for this item read 12" x 10" and over.

(4) Specifications changed from 12" x 10" to 12" x 6".

(5) Although in Part II of the Schedule the rate to Canada is not bound being included only to establish the maximum margin.

(6) Previous rate to U.K.—free plus 7d. per lb. Geneva rate to U.K.—½d. per lb. No rates are set forth in the Schedule and the Agreement only provides that the Canadian preferential margin shall not exceed 2d. per lb. The former additional duty of 7d. per lb. is eliminated.

(7) Previous rate to U.K.—½d. per lb. plus 7d. per lb. Geneva rate to U.K.—1½d. per lb. No rates are set forth in this Schedule. The Agreement only provides that the Canadian preferential margin shall not exceed 2d. per lb. The former additional duty of 7d. per lb. is eliminated.

(8) Previous rate to U.K.—free plus 7d. per lb. Geneva rate to U.K.—½d. per lb. No rates are set forth in the Schedule and the Agreement only provides that the Canadian preferential margin shall not exceed 2d. per lb. The former additional duty of 7d. per lb. is eliminated.

STATEMENT 5.—ITEMS OF IMPORTANCE TO CANADA IN THE UNITED KINGDOM AND DOMINIONS' TARIFFS ON WHICH PREFERENTIAL MARGINS WERE REVISED BY THE GENERAL AGREEMENT ON TARIFFS AND TRADE—NEW ZEALAND

Item	Item	Previous Rates		Geneva Agreement		Value of Imports 1939	
		To Canada	G.T.	To Canada	M.F.N.	From Canada	Total
7	Onions.....	£1 per ton + surtax of 22½% of duty (U.K. -£1 per ton).	£4 per ton + surtax of 22½% of duty.	£1 per ton (1)	£2.10s. per ton	£ 3,099	£ 9,357
35 (3)	Fish, potted and preserved including any liquor, oil, or sauces, other than by sulphurous acid process.	1½d. per lb. + surtax of 22½% of duty (1½d. per lb. U.K.)	3d. per lb. + surtax of 22½% of duty.	1½d. per lb.	2½d. per lb.	2,559	28,113
Ex.100	Chloroform; ethyl ether; other general or local anaesthetics, as may be approved by Min- ister; creosote refined; camphor, creosol, guaiacol, iodoform, menthol, mercurio- chrome, naphthols, resorcin, thymol, thymol iodide, and such other substances (excluding penicillin) specially suited for use as anti- septics as the Minister may approve.....	Free + 3% primage (U.K.) -Free + 3% primage).	20% + surtax of 22½% of duty	Free	20%	3,489	17,763
121 (1)	Medicinal preparations (except wines containing 50% proof spirits or less; medicinal prepara- tions, drugs, druggist sundries and apothecar- ies' wares, n.e.i.; also aerated-water makers, cordial makers and brewers' drugs, chemicals, and other sundries, n.e.i.; chem- icals, and chemical preparations, n.e.i.).....	20% + surtax of 22½% of duty (10 U.K.-20 %).	45% + surtax of 22½% of duty.	20%	40%	4,998	305,225

134(2)	Surgical and dental instruments, also operation chairs specially suited for dentists' use; dentists' self-flushing spittoons; opticians' trial cases, frames, spectacles, plain spectacle cases, test cards and diagrams, also such other instruments and appliances peculiar to surgeons', dentists' or opticians' use as may be enumerated by Minister; medicated remedial plaster or plastics.....	Free + 3% primage. (To U.K. — Free + 13% primage)	20% + surtax of 22½% of duty.	Free	65%	6, 129	49, 583
Ex.136(7)(a)	Apparel, clothing and hosiery, n.e.i.:—Hosiery, viz. socks or stockings of artificial silk or nylon.....	55% (U.K. — 25%).	65% + surtax of 22½% of duty.	55% (U.K. — 25%).	65%	48, 119	110, 715
Ex.136(7)(b)	Apparel, clothing, and hosiery, n.e.i.:—women's and girls' outer garments of woven fabrics....	45% (U.K. — 25%).	65% + surtax of 22½% of duty.	45% (U.K. — 25%).	65%	5, 616	11, 707
152	Elastics, all kinds; plain tape of cotton, linen, or jute; webbings, all kinds, etc.....	Free + 3% primage.	10% + surtax of 22½% of duty.	Free	10%	5, 360	90, 385
237	Clocks, time-registers, and time detectors.....	20% + surtax of 22½% of duty (To U.K. — 20%).	45% + surtax of 22½% of duty.	20% ⁽¹⁾	40%	17, 395	48, 635
Ex 239	Sporting, gaming and athletic requisites n.e.i. including billiard requisites, n.e.i.....	20% + surtax of 22½% of duty. (To U.K. — 20%)	50% + surtax of 22½% of duty.	20%	45%	8, 050 ⁽²⁾	137, 769
Ex 239	Fancy goods and toys.....	"	"	"	"	See above	
290	Paperhangings.....	Free + 3% primage.	25% + surtax of 22½% of duty.	Free ⁽¹⁾	20%	15, 726	77, 595
300(2)(a)	Paper n.e.i. including tin foil paper, and gummed paper n.e.i. In sheets less than 20" x 15" or equivalent.....	20% + surtax of 22½% of duty (To U.K. — 20%)	40% + surtax of 22½% of duty (M.F.N. — 40%)	20% ⁽¹⁾	35%	8, 147	17, 321

STATEMENT 5.—ITEMS OF IMPORTANCE TO CANADA IN THE UNITED KINGDOM AND DOMINIONS' TARIFFS ON WHICH
PREFERENTIAL MARGINS WERE REVISED BY THE GENERAL AGREEMENT ON TARIFFS AND TRADE—NEW ZEALAND
—Continued

Item	Item	Previous Rates		Geneva Agreement		Value of Imports 1939	
		To Canada	G.T.	To Canada	M.F.N.	From Canada	Total
300(2)(d)	Paper in rolls n.e.i. (newsprint)	Free	20% + surtax of 22½% of duty. (M.F.N.—40%).	Free	(2) Exempt from customs duties which exceed the duties on such products under the British Preferential Tariff by more than 10% ad val. surtax to M.F.N. countries eliminated.	£ 347,305	£ 447,686
300(2)(c)	Paper n.e.i. including tin-foil paper, gummed paper n.e.i. in rolls less than 10" wide except such rolls specially suited for industrial or similar purposes in such widths not exceeding 2" as the Minister may determine	20% + surtax of 22½% of duty. (To U.K.—20%).	40% + surtax of 22½% of duty. (M.F.N.—40%).	20% ⁽¹⁾	35%	N.S.S.	N.S.S.
Ex 332	Adding and computing machines and instruments, accounting and bookkeeping machines, combined adding and typing machines, but excluding ribbons for foregoing machines	Free + 3% primage (U.K.—Free).	25% + surtax of 22½% of duty.	Free + 3% ⁽¹⁾ primage duty.	Free + 3% primage.	8,510	75,092
Ex 332	Cash registering machines (excluding recording paper and ribbons); typewriters (including covers but not ribbons); duplicating machines and apparatus n.e.i. addressing machines	Free + 3% primage.	25% + surtax of 22½% of duty.	Free ⁽¹⁾	20%	17,948	27,520

Ex 338(7)	Machinery or appliances, electrical, viz.:—Mica	Free	25% + surtax of 22½% of duty. (M.F.N.—20%).	Free (1)	10%	51,152	68,227
342	Measuring, counting, testing, indicating, and recording machines, instruments, and appliances, n.e.i., drawing instruments; compasses, not being watch-chain pendants.....	Free + 3% primage.	20% + surtax of 22½% of duty.	Free (1)	20%	13,357 (2)	218,023 (2)
Ex 348	Tractor engines and tractors.....	Free	10% + surtax of 5% of duty	Free (1)	10%	6,434	64,116
352(a)	Machinery, machines, machine tools, engines and appliances, as may be approved by the Minister, peculiar to use in manufacturing, industrial and similar processes, viz.:—Bakers, confectioners, boot-making, brick and tile-making, flour and grain milling, gas-making, refrigerating, stone-crushing, woolen-mill and hosiery mill insulators and water turbines.....	Free	25% + surtax of 22½% of duty (M.F.N.—20%)	Free (1)	15%	5,871	444,438
P.19 353 Ex (6)(b)	Machinery, machines, engines, and other appliances, n.e.i., viz.:—refrigerating units having a heat removing capacity of less than 6,000 B.T.U. per hour for use in domestic type cabinets of capacities not exceeding 25 cubic ft. but not including such units when imported in or with cabinets.....	30% (U.K.—20%).	50% + surtax of 22½% of duty.	20% (U.K.—20%).	20%	6,194	98,628
P.19 Ex 354	Artificers' tools, n.e.i. (not including brushes or brushware, vices and joiners' clamps), and the following tools, viz.: axes, hatchets, forks, picks, mattocks, hammers, scythes, sheep-shears, reaping-hooks, scissors (not less than 10" in length), butchers and other cleavers and choppers, hand-saws, saw-blades, machine or hand, bill-hooks, brush-hooks and hedge-knives.....	Free + 3% primage.	25% + surtax of 22½% of duty.	Free (1)	17½%	56,243	237,286

STATEMENT 5.—ITEMS OF IMPORTANCE TO CANADA IN THE UNITED KINGDOM AND DOMINIONS' TARIFFS ON WHICH THE PREFERENTIAL MARGINS WERE REVISED BY THE GENERAL AGREEMENT ON TARIFFS AND TRADE—NEW ZEALAND
—Concluded

Item	Item	Previous Rates		Geneva Agreement		Value of Imports 1939	
		To Canada	G.T.	To Canada	M.F.N.	From Canada	Total
P 20 356(1)(b)	Hardware, hollowware and ironmongery, n.e.i., manufactured or partly manufactured articles of metal, or of metal in combination with any other material, n.e.i.	30% (U.K.—20%).	50%+surtax of 22½% of duty.	30% (4)	50%	£ 5,222	£ 32,231
P 22 379	Bicycles, tricycles, and the like, vehicles, including motor cycles, also hubs, spindles, and other finished or partly finished, or machined parts of same, n.e.i., side-cars for motor-cycles.....	10%+surtax of 22½% of duty. (To U.K.—10%).	40%+surtax of 22½% of duty.	(4)	Exempt from duties which exceed duties under the British Preferential Tariff by more than 20% <i>ad val.</i>	6,060	9,135
P 22 389(a)	Motor vehicles, n.e.i., viz.: (a) Unassembled or completely knocked down (c.k.d.).....	10%+surtax of 22½% (Can. content not less than 75%). 12½%+surtax of 22½% (Can. content not less than 65%). 50%+surtax of 22½% (Canadian content less than 65%).	50%+surtax of 22½% of duty.	(4)	40%	364,226	629,563

339(c)	Motor vehicles, n.e.i. viz: other kinds except motor vehicles unassembled or completely knocked down; and except chassis for electrically propelled motor vehicles of certain types.....	25% + surtax of 22½% (Can. content not less than 75%) 60% + surtax of 22½% (Can. content less than 75%).	60% + surtax of 22½% of duty.	(1)	50%	5,942	805,777
404 Ex (2)	Timber rough sawn or rough hewn—viz: Redwood, Douglas Fir in pieces having a length of not less than 25 ft. and having a minimum cross sectional area of not less than 150 sq. inches.	7s. 6d. per 100 super ft. + surtax of 5% of duty (U.K.— 7s. 6d. per 100 super ft.)	9s. 6d. per 100 super ft. + surtax of 5% of duty.	7s. 6d. per 100 super ft.	8s. 6d. per 100 super ft. ⁽³⁾	9,253	9,253
404 Ex (3)	Timber rough sawn or rough hewn, n.e.i. viz: Douglas Fir, other than in pieces having a length of not less than 25 ft. and having a minimum cross sectional area of not less than 150 sq. inches.	9s. 6d. per 100 super ft. + surtax of 5% of duty. (U.K.— 9s. 6d. per 100 super ft.)	11s. 6d. per 100 super ft. + surtax of 5% of duty.	9s. 6d. per 100 super ft. ⁽³⁾	10s. 6d. per 100 super ft. ⁽³⁾	32,072	32,072
414 Ex (1)	Veneers.....	20% + surtax of 22½% of duty.	45% + surtax of 22½% of duty.	20% ⁽¹⁾	35%	19,762 ⁽²⁾	100,499 ⁽²⁾
414 (2)	Woodenware, and turnery, n.e.i., saddle-trees, wooden tackle-blocks.....	30% (U.K.— 20%).	50% + surtax of 22½% of duty.	30% (U.K.— 20%).	50%	9,343	28,224

FOOTNOTES:

(1) Rate not set out in Schedule XIII.

(2) Statistical classification not identical with tariff item.

(3) No rates specified. Preference to be reduced proportionately to any reduction in the import excise tax payable on Canadian timber imported into the U.S.A. and to be eliminated when, and for as long as, such import tax ceases to apply. (U.S.A. import tax has been reduced by one-half.)

(4) Not mentioned in Schedule.

STATEMENT 5.—ITEMS OF IMPORTANCE TO CANADA IN THE UNITED KINGDOM AND DOMINIONS' TARIFFS ON WHICH THE PREFERENTIAL MARGINS WERE REVISED BY THE GENERAL AGREEMENT ON TARIFFS AND TRADE—UNION OF SOUTH AFRICA

Item	Item	Previous Rates		Geneva Agreement		Value of Imports 1939	
		To Canada	M.F.N.	To Canada	M.F.N.	From Canada	Total
15(a)(i)	Wheat in grain.....	28s. 6d. per 100 lbs.	2s. 8d. per 100 lbs.	Not fixed (1)	Not fixed (1)	£ 3,569	£ 31,997
15(a)(ii)	Wheat ground or otherwise prepared.....	5s. 4d. per 100 lbs.	5s. 8d. per 100 lbs.	Not fixed (1)	Not fixed (1)	2,061	6,183
70	Hosiery socks.....	10%	15% <i>ad val.</i>	.....	.....	N.S.S.	N.S.S.
279(a)(i)	Softwood: unmanufactured.....	Free	9s. per 100 cu. ft.	Free	4s. 6d. per (2) 100 cu. ft.	51,985	851,187

NOTES:

(1) Preference to be eliminated.

(2) Preference reduced.

APPENDIX C

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURED-NATION RATES

IN EFFECT ON JULY 1, 1939 AND ON JANUARY 1, 1948

AND

IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE
PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE
GENERAL AGREEMENT ON TARIFFS AND TRADEW. J. CALLAGHAN,
Commissioner of Tariff.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
1	Free	Free	Free	Free	\$ 201,047	\$ 767,171
5 (a)	Free	2 cts. lb.	Free	1½ cts. lb.	70	(a) 2,401
ex (c)	Free	20 p.c.	Free	7½ p.c.	(b) 136,571	(b) 834,737
6	Free	1 ct. lb.	Free	1 ct. lb.	*	*
7 (a)	4 cts. lb.	6 cts. lb.	4 cts. lb.	3 cts. lb.	8,859	1,097
ex(a)	4 cts. lb.	4 cts. lb.	4 cts. lb.	1½ cts. lb. but not less than 7½ p.c.	13,737	*
ex(c)	2 cts. lb.	1½ cts. lb.	2 cts. lb.	1½ cts. lb.	2,464,465	131,392
ex 8	15 p.c.	30 p.c.	15 p.c.	20 p.c.	47,709	(c) 1,949
ex 8	15 p.c.	24 p.c.	15 p.c.	22½ p.c.	11,556	*
ex 8	15 p.c.	24 p.c.	15 p.c.	10 p.c.	*	*
8a	10 p.c.	30 p.c.	10 p.c.	30 p.c.	233,362	672,606
9	12½ p.c.	15 p.c.	12½ p.c.	15 p.c.	119,511	(a) 1,210,548
9d	Free	4 cts. lb.	Free	2 cts. lb.	9,001	14,081
10 (d)	Free	1½ cts. lb.	Free	1½ cts. lb.	399,911	16,293
(b)	Free	3 cts. lb.	Free	2 cts. lb.	43,442	4,593
12	Free	Free	Free	Free	67	7,427
12a	Free	15 p.c.	Free	15 p.c.	1,070,768	1,401,027
14	Free	17½ p.c.	Free	17½ p.c.	40,730	703,715

* Not separately recorded.

(a) Includes goats, hogs, sheep and lambs, n.o.p.

(b) Includes menageries, horses and cattle, Item 701.

(c) Includes canned pork and canned hams.

(d) Includes imports of quails, etc., Item 9a.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURIED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
1515 (i)	Free	18 p.c.	15 p.c.	Free	49,913	199,630
(ii)	15 p.c.	18 p.c.	15 p.c.	15 p.c.		
ex 15 ex 711	15 p.c.	18 p.c.	15 p.c.	15 p.c.		
16	2 cts. doz.	5 cts. doz.	2 cts. doz.	3½ cts. doz.	23,573	70,332
16b	10 p.c.	25 p.c.	10 p.c.	25 p.c.	72,758	4,623
17	3 cts. lb.	7 cts. or 5-95 cts. lb.	3 cts. lb.	3½ cts. lb.	377,867	617,614
18	8 cts. lb.	12 cts. lb.	8 cts. lb.	12 cts. lb.	1,656	5,109
19	7½ p.c.	10 p.c.	7½ p.c.	10 p.c.	*	*
20	3 cts. lb.	4 cts. lb.	3 cts. lb.	3 cts. lb.	1,697	5,311
20a	Free	3 cts. lb.	Free	2½ cts. lb.	519,051	473
21	4 cts. lb.	4½ cts. lb.	4 cts. lb.	4 cts. lb.	8,983	11,798
22	22½ p.c. or 2 cts. lb.	27½ p.c. or 2½ cts. lb.	22½ p.c.	22½ p.c.	216,159	4,884
23	12½ p.c. and 2½ cts. lb.	27½ p.c. and 2½ cts. lb.	10 p.c. and 2½ cts. lb.	20 p.c. and 2½ cts. lb.	122,117	56,292
24	2½ cts. lbs.	3 cts. lb.	2½ cts. lb.	2½ cts. lb.	10	*
25	3 cts. lb.	5 cts. lb.	3 cts. lb.	3 cts. lb.	16,801	(a) 18,986
28	Free;	3 cts. lb.;	Free	2 cts. lb.	4,154,631	15,571,933
29	2½ cts. lb. and 7½ p.c.	3 cts. lb. and 10 p.c.				
28a	4 cts. lb.;	8 cts. lb.;	4 cts. lb.	6 cts. lb.	10,090,837	10,207,799
29a	10 cts. lb.	10 cts. lb.				
30 Pepper	Free	10 p.c.	Free	5 p.c.	107,279	321,450
Cloves	Free	12½ p.c.	Free	10 p.c.	41,943	25,591
30 Cinnamon	Free	12½ p.c.	Free	12½ p.c.	*	*
Ginger	Free	12½ p.c.	Free	12½ p.c.	36,957	64,375
Spices, n.o.p.	Free	12½ p.c.	Free	12½ p.c.	(b) 111,668	(b) 208,591
32	Free	17½ p.c.	Free	15 p.c.	44,428	49,948
34	17½ p.c.	25 p.c.	12½ p.c.	20 p.c.	330,892	175,822
35	6 cts. lb.	10 cts. lb.	6 cts. lb.	10 cts. lb.	237,565	2,771,434
39 (i)	1 ct. lb.	2 cts. lb.	1 ct. lb.	1½ cts. lb.	134,570	98,333
(ii)	1 ct. lb.	1½ cts. lb.	1 ct. lb.	1 ct. lb.	77,074	802,128

* Not separately recorded.

(a) Includes imports under Item 24.

(b) Includes cinnamon, unground.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOUR-
NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS
FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I
OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
39a (i)	$\frac{3}{4}$ ct. lb.	$1\frac{1}{2}$ cts. lb.	$\frac{3}{4}$ ct. lb.	$1\frac{1}{2}$ cts. lb.	90,053	211,28
(ii)	$\frac{3}{4}$ ct. lb.	$1\frac{1}{2}$ cts. lb.	$\frac{3}{4}$ ct. lb.	1 ct. lb.	9,233	15,896
39c	$\frac{1}{2}$ ct. lb.	1 ct. lb.	$\frac{1}{2}$ ct. lb.	1 ct. lb.	151,138	576,919
41	Free	$6\frac{1}{2}$ cts. per 100 lbs.	Free	$3\frac{1}{2}$ cts per 100 lbs. (a)	216,171	(a) 361,295
42	Free	4 cts. per 100 lbs.	Free	3 cts. per 100 lbs.	193,233	627,932
43	$2\frac{1}{2}$ cts. lb.	$3\frac{3}{4}$ cts. lb.	$2\frac{1}{2}$ cts. lb.	$3\frac{3}{4}$ cts. lb.	1,825	6,932
43a	$2\frac{1}{2}$ cts. lb.	5 cts. lb.	$2\frac{1}{2}$ cts. lb.	5 cts. lb. (b)	16,269	(b) 11,513
45 (i)	20 p.c.	25 p.c.	20 p.c.	20 p.c.	38,762	102,814
(ii)	20 p.c.	25 p.c.	20 p.c.	20 p.c.	79,637	99,486
46	15 p.c.	15 p.c.	15 p.c.	15 p.c.	26,152	551,487
47 (a) Castor	Free	$1\frac{1}{2}$ cts. lb.	Free	Free	*	*
(b) Soya	Free	Free	Free	Free	144,329	3,797,359
(c) Lima	Free	1 ct. lb.	Free	$\frac{1}{2}$ ct. lb.	*	*
47 (d) Kid- ney	Free	$1\frac{1}{2}$ cts. lb.	Free	1 ct. lb.	*	*
(e) N.o.p.	Free	$1\frac{1}{2}$ cts. lb.	Free	$1\frac{1}{2}$ cts. lb. (c)	142,816	(c) 428,634
48	Free	$\frac{3}{4}$ ct. lb.	Free	$\frac{3}{4}$ ct. lb.	176,719	563,170
52	Free	15 cts. bu.	Free	$7\frac{1}{2}$ cts. bu.	249	(d) 14,033
53	Free	50 cts. bbl.	Free	50 cts. bbl.	63,241	161,580
55	Free	10 cts. bu.	Free	8 cts. bu.	4,571,474	8,634,491
56	Free	8 cts. bu.	Free	4 cts. bu.	284,292	1,234
58	Free	9 cts. bu.	Free	6 cts. bu.	23	*
61	Free	50 cts. bbl.	Free	50 cts. bbl.	306,071	189
62	Free	Free	Free	Free	1,004,082	1,658,527
63	50 cts. per 100 lbs.	70 cts. per 100 lbs.	50 cts. per 100 lbs.	70 cts. per 100 lbs.	479,063	139,667
64	$17\frac{1}{2}$ p.c.	25 p.c.	$12\frac{1}{2}$ p.c.	$17\frac{1}{2}$ p.c.	74,560	46,102
65	$12\frac{1}{2}$ p.c.	$22\frac{1}{2}$ p.c.	$12\frac{1}{2}$ p.c.	$17\frac{1}{2}$ p.c.	168,982	375,017
65a	Free	$7\frac{1}{2}$ p.c.	Free	$7\frac{1}{2}$ p.c.	1,252	5,247
66	20 p.c.	30 p.c.	20 p.c.	25 p.c.	26,987	243,492
66a	Free	30 p.c.	Free	20 p.c.	183,999	55,675
69	Free	\$1.75 per ton	Free	50 cts. per	973	(e) 22,874

* Not separately recorded.

(a) Value of bags, etc. not included.

(b) Does not include dried milk for feeds.

(c) Includes Castor, Lima, Madagascar and red kidney beans.

(d) Includes buckwheat and rye.

(e) Includes hay.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURIED NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I-OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
69b	Free	\$1.75 per ton	Free	ton \$1.25 per ton	5,015	
71a	Free	1 ct. per lb.	Free	$\frac{1}{2}$ ct. lb.	227,300	32,041
71b	Free	$2\frac{1}{2}$ cts. lb.	Free	2 cts. lb.	13,378	145,667
72	5 p.c.	9 p.c.	5 p.c.	$7\frac{1}{2}$ p.c.	17,129	57,954
72d	5 p.c.	9 p.c.	5 p.c.	$7\frac{1}{2}$ p.c.	13,343	20,442
73e	15 p.c.	27 p.c.	15 p.c.	$22\frac{1}{2}$ p.c.	1,370	40,480
73	5 p.c.	9 p.c.	5 p.c.	$7\frac{1}{2}$ p.c.	183,095	(a) 358,054
ex. 73	5 p.c.	Free	5 p.c.	Free	*	*
ex 73	5 p.c.	9 p.c.	5 p.c.	Free	*	*
ex 76b	15 p.c.	25 p.c.	15 p.c.			
ex 276b	Free	10 p.c.	Free			
74 (i)	Free	2 cts. lb.	Free	2 cts. lb.	59,156	*
(ii)	Free	3 cts. lb.	Free	2 cts. lb.		
(iii)	Free	4 cts. lb.	Free	2 cts. lb.		
75 (i)	Free	3 cts. lb.	Free	2 cts. lb.	68,475	*
(ii)	Free	5 cts. lb.	Free	4 cts. lb.		
76 (i)	Free	10 cts. lb.	Free	$7\frac{1}{2}$ cts. lb.	53,742	*
(ii)	Free	15 cts. lb.	Free	$12\frac{1}{2}$ cts. lb.		
(iii)	Free	20 cts. lb.	Free	15 cts. lb.		
76a	Free	5 cts. lb.	Free	$2\frac{1}{2}$ cts. lb.	30,966	*
76b	15 p.c.	25 p.c.	15 p.c.	20 p.c.	33,281	(b) 620,545
76d	5 p.c.	9 p.c.	5 p.c.	$7\frac{1}{2}$ p.c.	92,670	71,662
77b	Free	10 p.c.	Free	5 p.c.	192,570	242,937
78	15 p.c.	$20\frac{1}{2}$ p.c.	15 p.c.	$17\frac{1}{2}$ p.c.	27,527	55,565
79	Free	15 p.c. ($13\frac{1}{2}$ p.c.)	Free	$12\frac{1}{2}$ p.c.	541,663	1,031,954
ex 79b	Free	25 p.c.	Free	$12\frac{1}{2}$ p.c.	128,818	307,866
81 (a)	Free	6 cts. ea. (3 cts. ea.)	Free	6 cts. ea.	12,204	31,249
(b)	Free	8 cts. ea. (3 cts. ea.)	Free	8 cts. ea.	13,253	37,644
(c)	Free	5 cts. ea.	Free	5 cts. ea.	7,167	12,671

* Not separately recorded.

(a) Includes grass seed only.

(b) Covers "Garden, field, root and other seeds, n.o.p."; apparently includes 1946 imports under items 73, 74, 75, 76, 76a and 76b.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURIED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
82 (a)	Free	2 cts. ea.	Free	2 cts. ea.	5,005	*
(b)	Free	1 ct. ea. (9/10 ct. ea.)	Free	1 ct. ea.	1,372	(a) 34,601
(d)	1½ cts. ea.	3 cts. ea.	1½ cts. ea.	3 cts. ea.	30,599	226,063
(e)	12½ p.c.	17½ p.c.	12½ p.c.	12½ p.c.	78,820	162,919
ex (e)	12½ p.c.	Free	12½ p.c.	Free	*	*
83 (a)	Free	Free Aug. 1 to June 14; otherwise 37½ cts. per 100 lbs.	Free	Free Aug. 1 to June 14; otherwise 37½ cts. per 100 lbs.	707,537	6,829,615
(c)	Free	Free	Free	Free	180,059	609,285
84 (a)	Free	30 p.c.	Free	15 p.c.	227,590	867,209
(b)	Free	30 p.c. (1½ cts. lb. 52 wks.)	Free	1 ct. lb. (40 wks.); otherwise 10 p.c.		
85 (a)	Free	10 p.c. (4-7/10 cts. lb., 52 wks.)	Free	3½ cts. lb. (52 wks.); otherwise 10 p.c.	(b) 13,786	(b) 23,945
(b)	Free	Dried 15½ p.c. Canned 20½ p.c. Preserved 27½ p.c.	Free	15 p.c.	(c) 36,268	(c) 38,546
(c)	Free	27½ p.c.	Free	10 p.c.	*	*
87 (a)	Free	10 p.c. (5 cts. lb. 10 wks.)	Free	3½ cts. lb. (8 wks.); otherwise 10 p.c.	103,501	194,252
(b)	Free	10 p.c. (1·9 cts., 14 wks.)	Free	1½ cts. lb. (14 wks.); otherwise 10 p.c.	299,514	578,612
(c)	Free	10 p.c.	Free	10 p.c.	*	*
87 (d)	Free	10 p.c. (0·9 ct. 26 wks.)	Free	9/10 ct. lb. (26 wks.); otherwise 10 p.c.	285,376	1,161,053
(e)	Free	10 p.c. (Carrots 1 ct. lb. 26 wks; Beets 1·2 cts. lb. 26 wks.)	Free	1 ct. lb. (26 wks.) otherwise 10 p.c.	432,772	1,757,124

* Not separately recorded.

(a) Includes bushes, roots and vines covered by Item 82 (a), (b) and (c).

(b) Includes truffles, fresh.

(c) Includes truffles, canned.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOUR-
NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, IMPORTS
FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I
OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
(f)	Free	10 p.c. (Cauliflower 1·8 cts. lb., 20 wks.)	Free	$\frac{1}{2}$ ct. lb. (20 wks.); otherwise 10 p.c.	141,394	461,913
(f)	Free	Free	Free	Free	*	*
(g)	Free	10 p.c. (1·1 cts. lb. 26 wks.)	Free	1 ct. lb. (24 wks.) otherwise 10 p.c.	573,693	2,051,860
(h)	Free	10 p.c. (2·4 cts. lb. 20 wks.)	Free	2 $\frac{1}{2}$ cts. lb. (12 wks.); otherwise 10 p.c.	95,823	360,615
(i)	Free	10 p.c. (1·1 cts. lb. 18 wks.)	Free	1 ct. lb. (18 wks.); otherwise 10 p.c.	923,215	2,670,736
(j)	Free	10 p.c.	Free	10 p.c.	*	*
87 (k)	Free	10 p.c. (2·6 cts. lb. 12 wks.)	Free	2 cts. lb. (12 wks.) otherwise 10 p.c.	182,840	235,577
(l)	Free	10 p.c. (1·2 cts. lb. 5 wks.)	Free	$\frac{1}{2}$ ct. lb. (10 wks.) otherwise 10 p.c.	*	*
(m)	Free	10 p.c.	Free	10 p.c.	619,322	359,558
(n)	Free	10 p.c. but not less than 1 $\frac{1}{2}$ cts. lb.	Free	1 $\frac{1}{2}$ cts. lb. (32 wks.) otherwise 10 p.c.	1,449,951	6,684,011
(o) Water- cress	Free	10 p.c.	Free	10 p.c.	(a) 314,214	(a) 902,349
En- dive	Free	Free	Free	Free		
(p)	Free	Free	Free	Free		
N.o.p.	Free	10 p.c.	Free	10 p.c.		
89 (a)	Free	1 $\frac{1}{2}$ cts. lb.	Free	1 $\frac{1}{2}$ cts. lb.	53,309	2,424
ex (b)	Free	1 $\frac{1}{2}$ cts. lb.	Free	1 $\frac{1}{2}$ cts. lb.	2,048	129
(c)	Free	1 $\frac{1}{2}$ cts. lb.	Free	1 $\frac{1}{2}$ cts. lb.	2,026	31
(d)	Free	20 p.c.	Free	15 p.c.	106,578	76,470
90a	15 p.c.	22 $\frac{1}{2}$ p.c.	15 p.c.	20 p.c.	109,330	149,731
90b	15 p.c.	32 $\frac{1}{2}$ p.c.	15 p.c.	22 $\frac{1}{2}$ p.c.	104,807	172,033
90c	12 $\frac{1}{2}$ p.c.	27 $\frac{1}{2}$ p.c.	12 $\frac{1}{2}$ p.c.	20 p.c.	284,500	338,667
90e	15 p.c.	32 $\frac{1}{2}$ p.c.	15 p.c.	20 p.c.	*	261,000

* Not separately recorded.

(a) Includes fresh vegetables under sub-items (c), (j), (l) and (o).

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURIED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
92(a)	Free	10 p.c. (2 cts. lb. 52 wks.)	Free	1 ct. lb. (10 wks.) otherwise 10 p.c.	(a) 97,603	(a) 461,006
(b)	Free	10 p.c. (4 cts. lb. 7 wks.)	Free	2 cts. lb. (7 wks.) otherwise 10 p.c.	128,514	237,157
(c)	Free	10 p.c. but not less than 1½ cts. lb.	Free	1 ct. lb. (12 wks.) otherwise 10 p.c.	227,792	530,539
(d)	Free	10 p.c. (1.8 cts. lb. 9 wks.)	Free	1½ cts. lb. (9 wks.) otherwise 10 p.c.	262,740	1,277,760
(e)	Free	10 p.c. (1.4 cts. lb. 15 wks.)	Free	1 ct. lb. (15 wks.) otherwise 10 p.c.	636,143	1,527,524
92 (f)	Free	10 p.c. (Plums 1.2 cts. lb. 10 wks.; prunes, 1.2 cts. lb. 8 wks.)	Free	1 ct. lb. (10 wks.) otherwise 10 p.c.	309,001	1,449,831
(g) (Straw- berries)	Free	10 p.c. (2.4 cts. lb. 6 wks.)	Free	1-3/5 cts. lb.) (6 wks.) otherwise wise 10 p.c.	(b) 512,891	(b) 347,934
(Rasp- berries and logan berries)	Free	10 p.c. (2.9 cts. lb. 6 wks.)	Free	2 cts. lb. (6 wks.) otherwise 10 p.c.		
(h)	Free	10 p.c.	Free	10 p.c.		
(i)	Free	10 p.c.	Free	10 p.c.	*	*
93	Free	15 p.c. (1.2 cts. lb. 52 wks.)	Free	Free May 20 to July 12, inc.; 4 ct. lb. July 13 to May 19, inc.	226,208	403,892
94 (a)	Free	1 ct. lb.	Free	Free	1,072,762	5,490,172
(b)	Free	1 ct. lb.	Free	1 ct. lb. (15 wks.) otherwise 10 p.c.		
95	Free	10 p.c. (1.6 cts. lb. 8 wks.)	Free	1½ cts. lb. (8 wks.) otherwise 10 p.c.	227,385	798,988

* Not separately recorded.

(a) Includes quinces, passion fruit and nectarines.

(b) Includes edible berries, n.o.p.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOUR-
NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS
FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I
OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
95a	Free	2 cts. ea.	Free	2 cts. ea.	126,861	827,503
96	Free	10 p.c. Free	Free	Free	28,716	48,370
97	Free	Free	Free	Free	268,893	1,435,502
98	Free	50 cts. stem or bunch	Free	50 cts. stem or bunch	2,398,173	20,118,735
99a	Free	1 ct. lb.	Free	Free	780,673	3,117,915
99b	Free	15 p.c.	Free	10 p.c.	101,149	136,535
99c (i)	Free	4 cts. lb.	Free	3 cts. lb.	3,205,703	3,902,721
(ii)	Free	4 cts. lb.	Free	4 cts. lb.	473,972	330,836
99d	Free	$\frac{1}{2}$ ct. lb.	Free	$\frac{1}{2}$ ct. lb.	248,199	487,268
99e	1 ct. lb.	1-575 cts. lb.	1 ct. lb.	1 $\frac{1}{2}$ cts. lb.	289,391	2,298,673
99f	Free	$\frac{1}{2}$ ct. lb.	Free	$\frac{1}{2}$ ct. lb.	219,194	2,149,429
99g	Free	22 $\frac{1}{2}$ p.c.	Free	15 p.c.	404,062	1,493,839
100 100a	Free $\frac{1}{2}$ ct. lb.	$\frac{1}{2}$ ct. lb. $\frac{1}{2}$ ct. lb.	Free	Free	1,269,902	5,008,366
101	Free	Free Jan. to July; 35 cts. cu. ft. Au- gust to De- cember.	Free	Free	6,212,292	26,703,182
101a	Free	Free	Free	Free	1,348,245	2,886,518
103	\$2.50 gal. and 60 p.c.	\$2.50 gal. and 60 p.c.	\$2.50 gal. and 60 p.c.	\$2.50 gal. and 30 p.c.	37	*
104	\$10.00 gal. and 30 p.c.	\$10.00 gal. and 30 p.c.	\$10.00 gal. and 30 p.c.	\$5.00 gal. and 30 p.c.	-	*
104a	1 $\frac{1}{2}$ cts. lb.	2 $\frac{1}{2}$ cts. lb.	1 $\frac{1}{2}$ cts. lb.	1 $\frac{1}{2}$ cts. lb.	(a) 108,161	(a) 1,550,582
105 (i)	1 $\frac{1}{2}$ cts. lb.	2 $\frac{1}{2}$ cts. lb.	1 $\frac{1}{2}$ cts. lb.	2 cts. lb.	}	}
(ii)	1 $\frac{1}{2}$ cts. lb.	2 $\frac{1}{2}$ cts. lb.	1 $\frac{1}{2}$ cts. lb.	2 cts. lb.		
ex 105b	10 p.c.	10 p.c.	10 p.c.	10 p.c.	}	}
ex 105c	20 p.c.	10 p.c.	20 p.c.	10 p.c.		
105e	20 p.c.	32 $\frac{1}{2}$ p.c.	20 p.c.	25 p.c.	34,458	142,507
105d	2 cts. lb.	3 $\frac{3}{4}$ cts. lb.	1 $\frac{1}{2}$ cts. lb.	3 $\frac{1}{4}$ cts. lb.	73,839	103,881
105e	20 p.c.	31 $\frac{1}{2}$ p.c.	20 p.c.	27 $\frac{1}{2}$ p.c.	39,250	396,416
106(a)	2 cts. lb.	3 $\frac{1}{2}$ cts. lb.	2 cts. lb.	2 $\frac{1}{2}$ cts. lb.	}	}
(a)	2 cts. lb.	3 cts. lb.	2 cts. lb.	2 cts. lb.		
(b)	1 ct. lb.	3 cts. lb.	1 ct. lb.	2 cts. lb.		
(c)	2 cts. lb.	3 cts. lb.	2 cts. lb.	1 ct. lb.		
					195,726	65,561
					778,810	180,916
					133,979	46,128

* Not separately recorded.

(a) Includes imports under Item 105 (i) and (ii).

(b) Includes olives not bottled.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
108	2 cts. lb.	1½ cts. lb.	2 cts. lb.	1½ cts. lb.	4,234	700,277
109	1 ct. lb.	1 ct. lb.	1 ct. lb.	1 ct. lb.	702,383	4,438,849
114	3 cts. lb.	2 cts. lb.	3 cts. lb.	1 ct. lb.	1,819,925	6,759,916
	3 cts. lb.	3 cts. lb.	3 cts. lb.	1 ct. lb.		
109a	Free	1 ct. lb.	Free	Free	985,867	7,941,621
110	50 cts. per 100.	\$1.00 per 100	Free	50 cts. per 100.	176,515	336,074
111	Free	75 cts. per 100.				
113	5 cts. lb.	6 cts. lb.	2 cts. lb.	3 cts. lb.	39,778	349,528
113a	Free	¾ ct. lb.	Free	Free		2,765,484
ex 114	3 cts. lb.	3 cts. lb.	3 cts. lb.	Free		(a) 45,229
115	½ ct. lb.	½ ct. lb.	½ ct. lb.	½ ct. lb.	680,236	2,678,980
116	½ ct. lb.	1 ct. lb.	½ ct. lb.	½ ct. lb.	17,096	*
117	Free	Free	Free	Free	156,420	33,727
120 (a)	3½ cts. box	4 cts. box	3½ cts. box	3½ cts. box	1,545	*
(b)	2½ cts. box	3½ cts. box	2½ cts. box	3 cts. box	7,409	*
(c)	2 cts. box	2½ cts. box	2 cts. box	2 cts. box	3,642	*
(d)	1¼ cts. box	1½ cts. box	1¼ cts. box	1½ cts. box	344,870	(b) 172,826
122	20 p.c.	30 p.c.	15 p.c.	25 p.c.	11,149	2,913
(i)	17½ p.c.	27½ p.c.	17½ p.c.	17½ p.c.	13,584	121
(ii)	17½ p.c.	27½ p.c.	17½ p.c.	22½ p.c.	38,093	46,568
(iii)	17½ p.c.	27½ p.c.	17½ p.c.	22½ p.c.	5,841	4,524
(iv)	17½ p.c.	27½ p.c.	17½ p.c.	27½ p.c.	8,225	6,903
(v)	17½ p.c.	27½ p.c.	17½ p.c.	22½ p.c.	53,700	21,370
ex 123a	17½ p.c.	15 p.c.	17½ p.c.	15 p.c.	(c) 392,393	(c) 21,403
124	7 cts. gal.	5 cts. gal.	7 cts. gal.	5 cts. gal.	195,694	484,261
128	17½ p.c.	15 p.c.	17½ p.c.	15 p.c.	6,064	631
ex 133	15 p.c.	20 p.c.	15 p.c.	Free	66,668	328,390
ex 134	Various rates apply	Various rates apply	No change	No change	20,599,682	32,415,641
ex 135						
ex 135b						
139	¾ ct. lb.	1½ cts. lb.	¾ ct. lb.	1½ cts. lb.	64,981	2,046,637
141	½ ct. lb. and 15 p.c.	½ ct. lb. and 30 p.c.	15 p.c.	25 p.c.	445,364	1,312,115
142 (a) (i)	20 cts. lb.	40 cts. lb.	20 cts. lb.	30 cts. lb.	205,260	308,118
(ii)	30 cts. lb.	60 cts. lb.	30 cts. lb.	40 cts. lb.	683	

* Not separately recorded.

(a) Includes ivory nuts.

(b) Includes imports under Items 120 (a), (b) and (c).

(c) Includes crabs and clams in sealed containers.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURIED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
(b) (i)	40 cts. lb.	40 cts. lb.	40 cts. lb.	20 cts. lb.	\$ 1,581,800	\$ 1,685,733
(ii)	60 cts. lb.	60 cts. lb.	60 cts. lb.	30 cts. lb.	103,258	928,565
143	\$3.90 lb. and 25 p.c.	\$3.90 lb. and 25 p.c.	\$3.90 lb. and 25 p.c.	\$1.75 lb. and 15 p.c.	35,889	61,233
143a	\$3.50 per lb.	\$3.00 per lb. and 15 p.c.	\$2.00 per lb. and 15 p.c. plus \$2.00 per thousand.	\$2.00 per lb. and 15 p.c. plus \$2.00 per thousand.	38,844	37,106
144	80 cts. lb.	95 cts. lb.	80 cts. lb. plus 15 cts. lb.	80 cts. lb. plus 15 cts. lb.	318,877	334,584
145	75 cts. lb.	90 cts. lb.	75 cts. lb. plus 15 cts. lb. except snuff.	90 cts. lb. plus 15 cts. lb. except snuff.	90,552	8,701
146	25 cts. gal.	35 cts. gal.	25 cts. gal. plus 30 cts. gal.	35 cts. gal. plus 30 cts. gal.	62	*
147	15 cts. gal.	50 cts. gal.	15 cts. gal. plus 30 cts. gal.	50 cts. gal. plus 30 cts. gal.	123,502	(a) 12,309
152 (i) Lime	15 p.c.	25 p.c.	15 p.c.	10 p.c.	(b) 1,006,134	(c) 7,688,377
Orange	15 p.c.	25 p.c.	15 p.c.	10 p.c.		
Lemon	15 p.c.	25 p.c.	15 p.c.	10 p.c.		
Passion fruit	15 p.c.	25 p.c.	15 p.c.	10 p.c.		
Pineapple	15 p.c.	15 p.c.	15 p.c.	10 p.c.		
Grape-fruit	15 p.c.	15 p.c.	15 p.c.	15 p.c.		
N.o.p.	15 p.c.	15 p.c.	15 p.c.	10 p.c.		
(ii)	15 p.c.	20 p.c.	15 p.c.	10 p.c.	*	*
152a	12½ p.c.	17½ p.c.	Free	5 p.c.	2,313	27,920
ex 156 (i)	\$5.00 gal.	\$6.00 gal.	\$4.50 gal. plus \$7.00 gal.	\$5.00 gal. plus \$7.00 gal.	4,344,154	4,766,923
(ii)	\$5.00 gal.	\$10.00 gal.	\$4.50 gal. plus \$7.00 gal.	\$5.00 gal. plus \$7.00 gal.	216,249	254,371
ex 156 (iii)	\$5.00 gal.	\$7.00 gal.	\$4.50 gal. plus \$7.00 gal.	\$6.00 gal. plus \$7.00 gal.	425,496	3,804,577
(iv)	\$5.00 gal.	†\$5.00 gal.	\$4.00 gal. plus \$7.00 gal.	\$4.00 gal. plus \$7.00 gal.	532,952	1,123,453

* Not separately recorded.

(a) Includes imports under Item 146.

(b) Includes fruit syrups.

(c) Includes fruit syrups and concentrated fruit juices.

† \$10.00 on other than Cognac and Armagnac.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
(v)	\$5.00 gal.	\$6.00 gal.	\$4.50 gal. plus \$7.00 gal.	\$4.50 gal. plus \$7.00 gal.	(a) 84,046	(a) 230,450
ex 156 156b	\$2.00 gal.	\$10.00 gal.	\$2.00 gal.	\$5.00 gal.	*	*
159	\$5.00 gal. & 30 p.c.	\$10.00 gal. & 30 p.c.	\$3.00 gal. & 30 p.c.	\$5.00 gal. & 30 p.c.	23,869	33,749
160 (i)(a)	30 p.c.	60 p.c.	30 p.c.	30 p.c.	(b) 56,922	(b) 99,983
(b)	\$5.00 gal.	\$5.00 gal. & 40 p.c.	\$5.00 gal.	\$5.00 gal. & 30 p.c.	(c) 52,269	(c) 91,272
(ii)(a)	30 p.c.	60 p.c.	30 p.c.	45 p.c.	*	*
(b)	\$5.00 gal.	\$5.00 gal. & 40 p.c.	\$5.00 gal.	\$5.00 gal. & 40 p.c.	*	*
ex 162	80 p.c.	80 p.c.	80 p.c. plus 42½ cts. gal.	20 cts. per gal. when 28 p.c. or less proof, plus 42½ cts. per gal.	44,813	237
ex 163	55 cts. gal.	35 cts. per gal. when not more than 23 p.c. proof, if of fresh grape, non-sparkling; 55 cts. per gal. when 24 p.c. proof, if of fresh grape, non-sparkling; 55 cts. per gal. on other non-sparkling wines. (Sacramental wines 35 cts. per gal.)	55 cts. per gal.; plus 42½ cts. per gal.	20 cts. per gal. up to 24 p.c. proof; plus 42½ cts. per gal.	650,721	2,447,829
165 (a) qts.	\$9.30 per doz.	\$7.44 per doz.	\$9.30 per doz. plus \$1.75 per gal.	\$5.00 per doz. plus \$1.75 per gal.	118,974	250,592
(b) pts.	\$4.65 per doz.	\$3.72 per doz.	\$4.65 per doz. plus \$1.75 per gal.	\$2.50 per doz. plus \$1.75 per gal.		
(c) ½ pts.	\$2.32 per doz.	\$1.86 per doz.	\$2.32 per doz. plus \$1.75 per gal.	\$1.25 per doz. plus \$1.75 per gal.		
(d) large	\$4.50 per gal.	\$3.60 per gal.	\$4.50 per gal. plus \$1.75 per gal.	\$2.50 per gal. plus \$1.75 per gal.		

* Not separately recorded.

(a) Includes mescal, angostura bitters, etc.

(b) Includes Item 160 (ii) (a).

(c) Includes Item 160 (ii) (b).

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOUR-
NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS
FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I
OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
ex 167	1/3 ct. lb.	2/5 ct. lb.	1/3 ct. lb.	1/3 ct. lb.	2,513	2,134,709
168	25 p.c.	5 cts. lb. and 30 p.c.	20 p.c.	25 p.c. and 2 cts. lb.	48,127	(a) 109,366
168a	25 p.c.	5 cts. lb. and 30 p.c.	20 p.c.	25 p.c.	*	*
169	Free	10 p.c.	Free	10 p.c.	26,474	473,177
ex 169 ex 184a ex 184b ex 184c ex 184d	Free	Free	Free	Free	*	*
170	Free	Free	Free	Free	131,902	296,709
171	Free	10 p.c.	Free	10 p.c.	2,030,844	5,148,011
ex 172	Free	Free	Free	Free	*	*
ex 172	Free	Free	Free	Free	(b) 506,803	(b) 1,393,078
178 (ii)	5 cts. lb.	12½ cts. lb. but not less than 27½ p.c.	5 cts. lb.	10 cts. lb. but not less than 25 p.c.	1,464,511	1,855,579
ex (ii)	5 cts. lb.	Free	5 cts. lb.	Free	*	*
179	22½ p.c.	27½ p.c.	17½ p.c.	22½ p.c.	115,337	259,130
180 (i)	12½ p.c.	20 p.c.	12½ p.c.	20 p.c.	497,663	1,816,967
(ii)	12½ p.c.	20 p.c.	12½ p.c.	20 p.c.		
(iii)	12½ p.c.	20 p.c.	12½ p.c.	20 p.c.		
180c	Free	9 p.c.	Free	9 p.c.	18,172	41,334
181	22½ p.c.	27½ p.c.	17½ p.c.	22½ p.c.	597,518	1,236,966
181a	20 p.c.	30 p.c.	15 p.c.	25 p.c.	602,190	580,262
184	Free	Free	Free	Free	(d) 6,710,848	(d) 11,302,961
187	Free	20 p.c.	Free	20 p.c.	1,032,197	1,569,056
187a	Free	10 p.c.	Free	10 p.c.	3,178	50,453
187b	Free	10 p.c.	Free	10 p.c.	30,924	64,394
188	Free	Free	Free	Free	92,493	346,003
189	Free	Free	Free	Free	26,238	66,473
192	15 p.c.	22½ p.c.	15 p.c.	22½ p.c.	1,308,740	3,364,923
192b	12½ p.c.	20 p.c.	12½ p.c.	20 p.c.	60,797	111,321
192c	Free	25 p.c.	Free	22½ p.c.	2,611	4,581

* Not separately recorded.

(a) Includes malt flour containing 50 per cent or over of malt.

(b) Includes Bibles.

(c) Includes engineers' drawings, etc., Item 180c.

(d) Includes magazines, unbound, etc., and Items 184a and 184c.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURIED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
192d	Free	12½ p.c.	Free	12½ p.c.	35,548	118,970
192f	15 p.c.	22½ p.c.	Free	7½ p.c.	*	11,222
193	15 p.c.	30 p.c.	15 p.c.	22½ p.c.	135,036	610,853
194	5 cts. pack	7 cts. pack	5 cts. pack	7 cts. pack	38,536	181,451
195	17½ p.c.	30 p.c.	17½ p.c.	22½ p.c.	132,474	323,199
197	15 p.c.	22½ p.c.	15 p.c.	22½ p.c.	2,071,417	3,263,870
197b	17½ p.c.	25 p.c.	17½ p.c.	22½ p.c.	346,726	875,218
197c (i)	10 p.c.	15½ p.c.	10 p.c.	15 p.c.	36,980	(a) 351,632
(ii)	15 p.c.	22½ p.c.	10 p.c.	15 p.c.	*	*
197e	Free	10 p.c.	Free	10 p.c.	93,309	599,742
198	20 p.c.	27½ p.c.	17½ p.c.	25 p.c.	944,863	1,650,256
198b	10 p.c.	15½ p.c.	10 p.c.	15 p.c.	3,537	1,467
199	20 p.c.	27½ p.c.	17½ p.c.	25 p.c.	1,530,749	2,793,386
199b	1 ct. lb.	1 ct. lb. but not less than 25 p.c.	1 ct. lb.	¾ ct. lb. but not less than 20 p.c.	545,913	1,286,673
199c	10 p.c.	27½ p.c.	10 p.c.	25 p.c.	157,743	245,684
199d	17½ p.c.	24½ p.c.	17½ p.c.	20 p.c.	478,496	56,970
199f	10 p.c.	22½ p.c.	10 p.c.	22½ p.c.	1,833	3,006
199g	15 p.c.	22½ p.c.	5 p.c.	12½ p.c.	125,803	242,194
200	Free	Free	Free	Free	811,508	1,557,774
203a	Free	10 p.c.	Free	10 p.c.	397,310	707,730
203b	Free	10 p.c.	Free	10 p.c.	3,965,068	4,836,628
204	Free	Free	Free	Free	159,149	483,389
205	Free	Free	Free	Free	14,204	43,183
206b	Free	Free	Free	Free	28,450	83,119
ex 208	Free	Free	Free	Free	2,453,836	4,271,081
ex 208	Free	Free	Free	Free	926,188	435,390
ex 208	Free	Free	Free	Free	94,854	6,016
ex 208	Free	Free	Free	Free	90,340	140,558
208a 1.	Free	15 cts. per 100 lbs.	Free	15 cts. per 100 lbs.	26,550	(b) 105,630
208c	Free	Free	Free	Free	*	*
208e	Free	15 p.c.	Free	15 p.c.	7,004	31,963

* Not separately recorded.

(a) Includes cigarette paper, ungummed, in sheets, Item 197c (ii).

(b) Includes Item 208a 2.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURIED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
208h	Free	Free	Free	Free	1,489,598	1,430,613
208j (i)	Free	10 p.c.	Free	10 p.c.	} 459,073	} 7,802
(ii)	Free	25 p.c.	Free	25 p.c.		
(iii)	Free	25 p.c.	Free	25 p.c.		
208l	Free	10 p.c.	Free	10 p.c.	22,889	7,101
208m	Free	10 p.c.	Free	10 p.c.	234,259	108,965
208n	Free	10 p.c.	Free	10 p.c.	10,983	25,937
208o	Free	10 p.c.	Free	10 p.c.	319,520	620,846
208q	Free	20 p.c.	Free	10 p.c.	29,559	75,880
208r	Free	15 p.c.	Free	15 p.c.	61,186	37,980
208s	Free	20 p.c.	Free	20 p.c.	98,327	56,474
208t	Free	17½ p.c.	Free	15 p.c.	(a) 4,977,764	(a) 16,862,298
ex 208t	Free	12½ p.c.	Free	12½ p.c.	269,756	244,934
ex 208t	Free	25 p.c.	Free	20 p.c.	*	*
208u	Free	Free	Free	Free	784,076	735,367
208v	Free	25 p.c.	Free	25 p.c.	(b) 84,224	(b) 458,109
208w	Free	Free	Free	Free	114,167	138,487
209c	Free	15 p.c.	Free	15 p.c.	27,700	34,031
210 (i)	Free	15 p.c.	Free	12½ p.c.	376,324	562,639
(ii)	Free	12½ p.c.	Free	12½ p.c.	254,765	410,682
210d	½ ct. lb.	½ ct. lb.	½ ct. lb.	½ ct. lb.	73,575	244,617
210e	Free	Free	Free	Free	1,148,575	468,821
212	Free	15 p.c.	Free	10 p.c.	781,348	711,422
215	Free	17½ p.c.	Free	12½ p.c.	170,047	(c) 138,271
216	Free	20 p.c.	Free	15 p.c.	(d) 735,855	(d) 1,479,104
216d	Free	Free	Free	Free	91,385	47,352
218	Free	25 p.c.	Free	25 p.c.	52,618	120,647
219 (i)	12½ p.c.	22½ p.c.	12½ p.c.	22½ p.c.	} 20,420	} 2,978
(ii)	Free	22½ p.c.	Free	22½ p.c.		
219a (i)	5 p.c.	22½ p.c.	5 p.c.	12½ p.c.	66,785	288,838
(ii)	Free	7½ p.c.	Free	7½ p.c.	(e) 1,089,927	(e) 3,224,260
219b	Free	Free	Free	Free	85,497	270,579

* Not separately recorded.

(a) Some goods recorded under Item 208t paid duty under Item 711.

(b) Includes imports of butyl alcohol.

(c) Includes stearic acid imported under Items 215 and 215a.

(d) Some goods recorded under Item 216 paid duty under Item 711.

(e) Includes materials duty free under Item 791.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURIED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
219d	Free	20 p.c.	Free	20 p.c.	(a) 90,880	(a) 143,197
220 (i)	17½ p.c.	20 p.c.	17½ p.c.	20 p.c.	(b) 1,688,492	(b) 3,937,269
(ii)	20 p.c.	27½ p.c.	17½ p.c.	22½ p.c.	(b) 549,985	(b) 878,850
220a (i)	17½ p.c.	20 p.c.	15 p.c.	20 p.c.	*	*
	20 p.c.	27½ p.c.	15 p.c.	20 p.c.		
(ii)	60 p.c.	60 p.c.	30 p.c.	25 p.c.	*	*
ex 225	5 p.c.	7½ p.c.	5 p.c.	Free	*	*
228 (i)	20 p.c.	29½ p.c.	15 p.c.	22½ p.c.	137,292	171,925
(ii)	20 p.c.	25 p.c.	15 p.c.	20 p.c.	104,088	249,278
229	50 cts. per 100 lbs.	\$1.50 per 100 lbs.	50 cts. per 100 lbs.	\$1.50 per 100 lbs.	282,281	538,637
230	Free	2 cts. lb.	Free	1 ct. lb.	39,389	1,112
231b	17½ p.c. and 2 cts. lb.	25 p.c. and 5 cts. lb.	Free	Free	*	*
232 (i)	17½ p.c. and 2 cts. lb.	25 p.c. and 5 cts. lb.	15 p.c. and 2 cts. lb.	22½ p.c. and 5 cts. lb.	171,962	769,858
(ii)	17½ p.c. and 2 cts. lb.	25 p.c. and 5 cts. lb.	15 p.c.	22½ p.c.	106,426	8,920
232b	10 p.c.	35 p.c.	10 p.c.	27½ p.c.	47,937	6,879
232c	10 p.c.	35 p.c.	10 p.c.	25 p.c.	495,464	1,120,329
232f	15 p.c. and 1½ cts. lb.	25 p.c. and 2½ cts. lb.	15 p.c. and 1½ cts. lb.	20 p.c. and 2½ cts. lb.	37,926	42,251
234	15 p.c.	30 p.c.	15 p.c.	25 p.c.	423,926	529,390
236	10 p.c.	20 p.c.	10 p.c.	20 p.c.	317,776	347,380
238a	10 p.c.	27½ p.c.	10 p.c.	25 p.c.	401,722	880,321
ex 238a	10 p.c.	27½ p.c.	10 p.c.	10 p.c.	*	*
238e	20 p.c.	30 p.c.	20 p.c.	25 p.c.	374,016	1,995,008
239	Free	Free	Free	Free	540,436	2,106,180
240	Free	10 p.c.	Free	10 p.c.	244,221	504,162
241a	Free	15 p.c.	Free	15 p.c.	(c) 154,898	(c) 239,617
242	Free	15 p.c.	Free	12½ p.c.	2,051,293	3,232,340
243	15 p.c.	20 p.c.	15 p.c.	20 p.c.	701	10,745
244	20 p.c.	25 p.c.	20 p.c.	25 p.c.	1,562	132
245	5 p.c.	15 p.c.	5 p.c.	15 p.c.	56,873	81,929

* Not separately recorded.

(a) Includes imports of chloroform under Item 476c.

(b) Includes imports under 220a (i) and (ii)

(c) Includes imports under Item 241.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURIED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
246	12½ p.c.	20 p.c.	12½ p.c.	17½ p.c.	994,137	2,040,667
246b	Free	20 p.c.	Free	20 p.c.	(a) 54,638	(a) 63,551
247	17½ p.c.	25 p.c.	17½ p.c.	20 p.c.	304,656	794,226
247a (i)	Free	25 p.c.	Free	15 p.c.	(b) 85,513	(b) 197,070
(ii)	Free	27½ p.c.	Free	22½ p.c.	23,454	46,758
248	75 cts. gal.	85 cts. gal.	75 cts. gal.	85 cts. gal.	58,558	284,349
249	15 cts. gal. and 10 p.c.	15 cts. gal. and 20 p.c.	15 cts. gal. and 5 p.c.	15 cts. gal. and 15 p.c.	190,071	446,293
250	Free	7½ p.c.	Free	7½ p.c.	4,320	.....
252	12½ p.c.	22½ p.c.	12½ p.c.	17½ p.c.	476,051	785,290
253	17½ p.c.	27½ p.c.	17½ p.c.	22½ p.c.	13,255	33,189
254 (i)	Free	10 p.c.	Free	Free	(c) 188,411	(c) 159,933
(ii)	Free	10 p.c.	Free	Free	69,399	285,524
(iii)	Free	10 p.c.	Free	10 p.c.	610,488	3,097,947
256	12½ p.c.	17½ p.c.	12½ p.c.	15 p.c.	246,783	363,085
259a	Free	22½ p.c.	Free	22½ p.c.	5,689	1,665
261	Free	Free	Free	Free	420,143	1,602,172
262	Free	17 p.c.	Free	10 p.c.	353,083	324,869
263	Free	5 p.c.	Free	5 p.c.	2,927,449	4,075,721
264 (i)	Free	7½ p.c.	Free	Free	1,070,507	3,582,334
(ii)	Free	7½ p.c.	Free	7½ p.c.		
264a	Free	5 p.c.	Free	Free	92,256	150,927
265	12½ p.c.	30 p.c.	12½ p.c.	15 p.c.	57,752	1,275,394
265a	12½ p.c.	20 p.c.	12½ p.c.	20 p.c.	216,583	573,032
265b	Free	15 p.c.	Free	15 p.c.	379,709	240,236
265c	Free	20 p.c.	Free	20 p.c.	15,785	187
ex 266	Free	Free	Free	Free	908,323	448,379
267b	Free	1 ct. gal.	Free	1 ct. gal.	*	*
272	15 p.c.	20 p.c.	15 p.c.	20 p.c.	324,506	659,989
ex 273	Free	10 p.c.	Free	10 p.c.	(c) 198,096	(c) 435,612
274	Free	Free	Free	Free	962,537	2,816,666

* Not separately recorded.

(a) Includes imports under Item 246c.

(b) Includes pastels of a value of one cent per stick or over (247a (ii)).

(c) Includes mastic and sandarac Item 254 (ii); Australian and kauri Item 254 (iii).

(e) Includes asphaltum or asphalt, not solid.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURIED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
ex 276b ex 277 ex 278b ex 278c	Free	10 p.c.	Free	10 p.c.	\$ (a) 4,462,253	\$ (a) 2,744,793
ex 277	Free	10 p.c.	Free	10 p.c.	*	*
278e ex 208t ex 711	Free Free 15 p.c.	Free 17½ p.c. 20 p.c.	Free 17½ p.c. 20 p.c.	Free 17½ p.c. 20 p.c.	173,858	831,046
ex 281	Free	Free	Free	Free	(b) 1,153,635	(b) 1,509,637
281a	Free	Free	Free	Free	494,396	1,708,588
281b	5 p.c.	15 p.c.	5 p.c.	15 p.c.	841,071	1,680,976
282	12½ p.c.	15 p.c.	12½ p.c.	15 p.c.	34,037	94,280
282a	12½ p.c.	20 p.c.	12½ p.c.	17½ p.c.	141,023	361,882
284 (i) (ii)	20 p.c. 20 p.c.	30 p.c. 30 p.c.	15 p.c. 15 p.c.	22½ p.c. 25 p.c.	15,768 123,689	101,761 340,858
284a	Free	32½ p.c.	Free	20 p.c.	10,731	9,806
285	15 p.c.	27½ p.c.	15 p.c.	20 p.c.	56,209	110,140
286	20 p.c.	30 p.c.	20 p.c.	20 p.c.	7,657	14,786
287	Free	35 p.c.	Free	25 p.c.	3,023,375	6,326,800
288	20 p.c.	35 p.c.	17½ p.c.	25 p.c.	401,691	1,599,387
288a	Free	20 p.c.	Free	20 p.c.	13,854	72,328
288b	Free	20 p.c.	Free	20 p.c.	5,114	5,247
289	15 p.c.	27½ p.c.	15 p.c.	25 p.c.	147,976	741,070
ex 296	Free	Free	Free	Free	22,831	58,645
ex 296	Free	Free	Free	Free		
ex 296b	20 p.c.	27½ p.c.	20 p.c.	15 p.c.	(c) 37,366	(c) 385,573
ex 296b	20 p.c.	27½ p.c.	20 p.c.	20 p.c.		
296c	Free	20 p.c.	Free	20 p.c.	51,864	40,994
296d	Free	15 p.c.	Free	15 p.c.	10,379	13,622
296e	Free	Free	Free	Free	16,745	*
297	Free	Free	Free	Free	190,305	584,418
300	Free	15 p.c.	Free	15 p.c.	100,350	188,252
ex 305	10 p.c.	12½ p.c.	10 p.c.	10 p.c.	20,436	43,343
306 (i)	Free	20 p.c.	Free	10 p.c.	32,716	91,077
(ii)	Free	20 p.c.	Free	15 p.c.	19,800	44,196

* Not separately recorded.

(a) Includes cottonseed and also includes palm oil for all purposes. 1946 imports include peanut oil and coconut oil for all purposes.

(b) Imports include fire brick made substantially of silicon carbide and/or fused alumina.

(c) Includes caustic-calcined or plastic magnesia.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
306c	Free	15 p.c.	Free	10 p.c.	11,088	53,068
ex 308	20 p.c.	22½ p.c.	20 p.c.	22½ p.c.	*	*
312	15 p.c.	20 p.c.	15 p.c.	12½ p.c.	(a) 849,875	(a) 1,606,122
312a	Free	20 p.c.	Free	12½ p.c.	*	*
313	Free	7½ p.c.	Free	7½ p.c.	13,384	98,847
314	15 p.c.	22½ p.c.	15 p.c.	22½ p.c.	101,148	408,846
315	Free	Free	Free	Free	315,697	481,630
316	22½ p.c.	32½ p.c. and 20 cts. lb.	22½ p.c.	25 p.c. and 10 cts. lb.	2,393	56,842
316a	Free	6½ p.c.	Free	5 p.c.	552,625	1,137,233
317	Free	Free	Free	Free	1,541	.....
318	Free	15 p.c.	Free	10 p.c.	1,159,896	2,671,831
319	Free	25 p.c.	Free	21 p.c.	(b) 622,163	(b) 1,091,936
320	Free	20 p.c.	Free	10 p.c.	493,535	901,209
321	Free	20 p.c.	Free	20 p.c.	206,780	518,702
322	17½ p.c.	30 p.c.	17½ p.c.	25 p.c.	356,020	820,511
323	20 p.c.	30 p.c.	20 p.c.	22½ p.c.	134,608	376,242
325	20 p.c.	27½ p.c.	20 p.c.	15 p.c.	2,832	350
326 (i)	15 p.c.	27½ p.c.	15 p.c.	22½ p.c.	1,226,281	5,425,473
(ii)	10 p.c.	25 p.c.	10 p.c.	22½ p.c.	(c) 69,832	(c) 77,549
(iii)	10 p.c.	25 p.c.	10 p.c.	22½ p.c.	949,354	2,327,547
326a	10 p.c.	17½ p.c.	10 p.c.	17½ p.c.	748,232	2,044,553
326e	Free	Free	Free	Free	216,371	601,879
326g	Free	15 p.c.	Free	15 p.c.	523,777	2,580,469
327	20 p.c.	24½ p.c.	20 p.c.	22½ p.c.	81,190	177,256
330	Free	Free	Free	Free	27,092	374,066
339a	Free	27½ p.c.	Free	25 p.c.	78,652	457
339b	10 p.c.	27½ p.c.	10 p.c.	27½ p.c.	64,523	128,204
340	7½ p.c.	17½ p.c.	7½ p.c.	17½ p.c.	48,280	116,700
341	10 p.c.	20 p.c.	10 p.c.	20 p.c.	17,785	25,602
345	Free	Free	Free	Free	654,114	600,473
346	15 p.c.	20 p.c.	15 p.c.	17½ p.c.	283,127	1,043,212

* Not separately recorded.

(a) Includes imports under Item 312a.

(b) These imports include some glass under Items 320 and 321.

(c) Includes glass shades or blobs and opal glassware.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURIED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
346a	Free	Free	Free	Free	60,232	146,272
348c	5 p.c.	10 p.c.	5 p.c.	10 p.c.	313,571	(a) 1,387,287
350	10 p.c.	30 p.c.	10 p.c.	20 p.c.	142,883	593,184
315	20 p.c.	27½ p.c.	20 p.c.	20 p.c.	146,549	1,117,972
351b	17½ p.c.	22½ p.c.	17½ p.c.	20 p.c.	35,512	39,322
352	20 p.c.	24½ p.c.	20 p.c.	20 p.c.	2,907,247	6,627,572
ex 352 ex 362c ex 432d ex 446a ex 506	Various	10 p.c.	Various	10 p.c.	34,717	103,063
353 (i)	Free	27½ p.c.	Free	2 cts. lb.	90,049	83,970
(ii)	Free	27½ p.c.	Free	3 cts. lb.	789,273	2,371,896
(iii)	Free	27½ p.c.	Free	22½ p.c.	59,810	72,024
(iv)	Free	30 p.c.	Free	22½ p.c.	5,809	720
(v)	Free	27½ p.c.	Free	22½ p.c.	52,283	25,969
(vi)	Free	30 p.c.	Free	30 p.c.	248,997	(b) 117,310
353a (i)	Free	Free	Free	Free	2,070	"
(ii)	Free	Free	Free	Free	17,844	108,640
354	15 p.c.	27½ p.c.	15 p.c.	22½ p.c.	858,603	2,161,739
354a	20 p.c.	27½ p.c.	20 p.c.	22½ p.c.	116,965	676,530
357	15 p.c.	25 p.c.	15 p.c.	25 p.c.	170,178	121,421
361	15 p.c.	30 p.c.	15 p.c.	30 p.c.	104,105	124,929
362	20 p.c.	32½ p.c.	17½ p.c.	27½ p.c.	306,795	842,718
362a	20 p.c.	25 p.c.	20 p.c.	17½ p.c.	28,485	114,650
362b	17½ p.c.	37½ p.c. 33½ p.c.	17½ p.c.	30 p.c.	25,907	23,841
362c	17½ p.c.	30 p.c.	15 p.c.	22½ p.c.	2,151,067	4,256,681
364	Free	Free	Free	Free	4,129,532	4,002,457
365a	15 p.c.	25 p.c.	15 p.c.	20 p.c.	89,799	(c) 515,743
365b	Free	20 p.c.	Free	15 p.c.	1,838	"
366	20 p.c.	30 p.c. but not less than 40 cts. ea.	20 p.c.	30 p.c. but not less than 40 cts. ea.	227,913	1,850,330
366a	Free	15 p.c. but not less than 40 cts. ea.	Free	15 p.c. but not less than 40 cts. ea.	868,982	3,170,329

* Not separately recorded.

(a) Imports include some material under Item 352.

(b) Imports include Item 353a (i)

(c) Imports include Item 365b.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
366b	Free	15 p.c. but not less than 5 cts. per plate	Free	15 p.c. but not less than 5 cts. per plate	183,100	423,388
367	20 p.c.	32½ p.c.	15 p.c.	25 p.c.	298,493	1,150,706
368	15 p.c.	30 p.c. but not less than 40 cts. ea.	15 p.c.	30 p.c. but not less than 40 cts. ea.	349,248	970,633
369	10 p.c.	25 p.c.	10 p.c.	25 p.c.	177,444	242,689
370	Free	10 p.c.	Free	10 p.c.	84,302	68,702
375 (c)	Free	1½ cts. on silicon content	Free	1 ct. lb. on silicon content	294	(a) 45,378
(f)	Free	5 p.c.	Free	5 p.c.	461,596	402,389
377a	\$2.50 ton	\$4.00 ton	\$2.50 ton	\$4.00 ton	324,126	178,650
377c	Free	\$3.00 ton	Free	\$3.00 ton	25,680	(b) 104,860
377f	Free	\$6.00 ton	Free	\$6.00 ton	55,014	138,797
378 (a)	\$4.25 ton	\$7.00 ton	\$4.25 ton	\$7.00 ton	1,134,781	2,453,952
(b)	10 p.c.	25 p.c.	10 p.c.	25 p.c.	11,467	22,900
(c)	10 p.c.	20 p.c.	10 p.c.	20 p.c.	382,003	1,573,333
(d)	Free	12½ p.c.	Free	12½ p.c.	1,176,934	1,489,682
379 (e)	Free	\$7.00 ton	Free	\$7.00 ton	1,829	213
(f)	Free	\$7.00 ton	Free	\$7.00 ton	77,405	128,529
380 (a)	\$4.25 ton	\$8.00 ton	\$4.25 ton	\$8.00 ton	196,825	693,345
(b)	Free	\$6.00 ton	Free	\$6.00 ton	882,814	1,359,304
(c)	5 p.c.	25 p.c.	5 p.c.	25 p.c.	27,004	107,805
(d)	Free	\$8.00 ton	Free	\$8.00 ton	92,989	344,786
381 (a)	7½ p.c.	20 p.c.	7½ p.c.	20 p.c.	2,786,526	4,739,956
(b)	\$4.25 ton	\$6.00 ton	\$4.25 ton	\$6.00 ton	892,183	2,136,964
382 (a)	5 p.c.	12½ p.c.	5 p.c.	12½ p.c.	245,794	370,224
(b)	\$3.00 ton	\$7.00 ton	\$3.00 ton	\$7.00 ton	124,561	502,009
(c)	7½ p.c.	20 p.c.	7½ p.c.	20 p.c.	384,448	1,553,137
(d)	12½ p.c.	27½ p.c.	12½ p.c.	27½ p.c.	34,371	167,724
383 (a)	Free	15 p.c.	Free	10 p.c.	394,409	(c) 5,073,089
(b)	Free	17½ p.c.	15 p.c.	15 p.c.	8,844,963	*
(c)	7½ p.c.	17½ p.c.	7½ p.c.	17½ p.c.	1,294,990	1,464,409

* Not separately recorded.

(a) Includes imports under Items 375 (d) and (e).

(b) Includes imports under Item 377.

(c) Includes imports under Item 383 (b).

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
(d)	5 p.c.	10 p.c.	5 p.c.	10 p.c.	674,630	97,666
(e)	5 p.c.	12½ p.c.	5 p.c.	12½ p.c.	211,772	776,456
(f)	10 p.c.	20 p.c.	10 p.c.	20 p.c.	3,456	12,385
(g)	10 p.c.	20 p.c.	10 p.c.	20 p.c.	144,931	117,694
384	Free	5 p.c.	Free	5 p.c.	4,338,611	2,435,731
385	Free	12½ p.c.	Free	12½ p.c.	63,870	731,995
385a	Free	17½ p.c.	Free	12½ p.c.	530,905	3,050,661
386 (a)	Free	\$5.00 ton	Free	\$5.00 ton	417,417	282,309
(c)	Free	Free	Free	Free	163,145	479,437
(h)	Free	10 p.c.	Free	10 p.c.	85,676	249,899
(k)	Free	10 p.c.	Free	10 p.c.	393,833	417,730
(m)(i)	Free	15 p.c.	Free	15 p.c.	31	4,668,744
(m)(ii)	5 p.c.	17½ p.c.	5 p.c.	17½ p.c.	395,517	.....
(p)	Free	12½ p.c.	Free	12½ p.c.	667,623	2,080,357
(q)	Free	12½ p.c.	Free	12½ p.c.	119,682	152,017
387c	Free	\$7.00 ton	Free	\$7.00 ton	73,025	91,732
388	Free	\$3.00 ton	Free	\$3.00 ton	2,118,611	4,180,973
388b	\$4.00 ton	\$7.00 ton	\$4.00 ton	\$7.00 ton	564,546	1,266,008
388d	20 p.c.	35 p.c.	20 p.c.	30 p.c.	15,838	180,468
388e	Free	\$3.00 ton	Free	\$3.00 ton	6,360	.....
390	15 p.c.	22½ p.c.	15 p.c.	20 p.c.	133,994	364,229
390a	15 p.c.	22½ p.c.	15 p.c.	20 p.c.	146,358	365,996
390b	15 p.c.	22½ p.c.	15 p.c.	20 p.c.	107,944	193,748
390c	Free	Free	Free	Free	10,672	27,526
392	17½ p.c.	27½ p.c.	17½ p.c.	25 p.c.	158,135	446,246
ex 392	17½ p.c.	10 p.c.	17½ p.c.	10 p.c.	10,730	21,808
392a	Free	20 p.c.	Free	15 p.c.	203,051	81,193
393	Free	7½ p.c.	Free	7½ p.c.	783,596	1,187,278
394 (a)	7½ p.c.	25 p.c.	7½ p.c.	22½ p.c.	18,249	60,498
(b)	22½ p.c.	30 p.c.	22½ p.c.	22½ p.c.	217,863	278,417
(c)	20 p.c.	27½ p.c.	20 p.c.	22½ p.c.	1,820	15,460
396	\$5.00 ton	\$10.80 ton	\$5.00 ton	\$10.00 ton	7,665	8,849
396a	Free	7½ p.c.	Free	7½ p.c.	10,376	23,538
397 (a)	15 p.c.	25 p.c.	15 p.c.	22½ p.c.	373,371	1,633,047
(b)	10 p.c.	15 p.c.	10 p.c.	15 p.c.	94,318	528,110
(c)	5 p.c.	10 p.c.	5 p.c.	10 p.c.	14,252	87,292
(d)	12½ p.c.	20 p.c.	12½ p.c.	15 p.c.	67,882	184,344
398	Free	5 p.c.	Free	5 p.c.	457,277	1,903,976
398a	Free	15 p.c.	Free	15 p.c.	8,943	28,029
400	20 p.c.	25 p.c.	20 p.c.	22½ p.c.	525,814	1,599,285

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURLED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
401 (a)	Free	10 p.c.	Free	10 p.c.	23,023	903
(b)	15 p.c.	25 p.c.	15 p.c.	25 p.c.	175,452	198,298
(c)	7½ p.c.	20 p.c.	7½ p.c.	20 p.c.	7,843	49,076
(d)	Free	10 p.c.	Free	10 p.c.	11,808	.....
(e)	10 p.c.	20 p.c.	10 p.c.	20 p.c.	6,205	103,231
(f)	15 p.c.	30 p.c.	15 p.c.	30 p.c.	21,644	177,708
(g)	15 p.c.	20 p.c.	15 p.c.	15 p.c.	278,560	824,309
402a	20 p.c.	30 p.c.	17½ p.c.	25 p.c.	111,166	343,328
402b (i)	12½ p.c.	20 p.c.	5 p.c.	17½ p.c.	55,273	62,682
(ii)	12½ p.c.	20 p.c.	12½ p.c.	20 p.c.		
403 (c)	Free	5 p.c.	Free	5 p.c.	927,375	1,810,450
404 (b)	22½ p.c.	30 p.c.	22½ p.c.	27½ p.c.	17,092	46,755
406 (a)	Free	5 p.c.	Free	5 p.c.	43,258	55,545
(b)	15 p.c.	25 p.c.	15 p.c.	25 p.c.	62,319	112,255
407	Free	20 p.c.	Free	15 p.c.	153,464	419,674
407a	15 p.c.	30 p.c.	15 p.c.	25 p.c.	134,968	244,956
408	Free	5 p.c.	Free	Free	156,432	659,857
409	Free	12½ p.c.	Free	Free	644,364	758,046
409b	Free	7½ p.c.	Free	Free	580,503	2,792,902
409c	Free	7½ p.c.	Free	Free	553,399	2,097,858
409d	Free	7½ p.c.	Free	Free	2,121,406	8,179,437
409e (i)	Free	5 p.c.	Free	Free	309,920	1,278,934
(ii)	Free	5 p.c.	Free	Free	31,494	(a) 262,591
409f	Free	7½ p.c.	Free	Free	301,557	1,539,441
409g	Free	7½ p.c.	Free	Free	54,628	732,521
409h	Free	7½ p.c.	Free	Free	14,561	224,006
409i	Free	7½ p.c.	Free	Free	61,405	85,418
409j	Free	7½ p.c.	Free	Free	598,811	839,797
409k	Free	7½ p.c.	Free	Free	97,525	184,051
409l	Free	Free	Free	Free	14,042	196,919
409m	Free	Free	Free	Free	15,002,601	45,620,185
409p	Free	15 p.c.	Free	15 p.c.	124,821	199,360
410a	Free	10 p.c.	Free	10 p.c.	245,176	659,416
410b	Free	10 p.c.	Free	10 p.c.	155,594	272,937
410d	Free	Free	Free	Free	(a) 2,145,367	(b) 2,969,828
410j	Free	Free	Free	Free	251,051	306,627
410l	5 p.c.	17½ p.c.	5 p.c.	15 p.c.	1,490,045	1,407,190

(a) Includes imports of apparatus for sterilizing bulbs; pressure testing apparatus for determining maturity of fruit, and parts under Tariff Item 409e (i).

() Includes imports under Tariff Item 848.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURIED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
410n	Free	10 p.c.	Free	10 p.c.	(a) 104,203	(a) 431,874
410u	12½ p.c.	17½ p.c.	12½ p.c.	17½ p.c.	75,744	27,549
410z	5 p.c.	10 p.c.	5 p.c.	10 p.c.	67,909	22,639
411a	10 p.c.	15 p.c.	10 p.c.	12½ p.c.	599,998	3,872,875
412a	Free	Free	Free	Free	1,068,715	2,659,404
412b	Free	10 p.c.	Free	10 p.c.	54,716	176,292
412c	Free	Free	Free	Free	480,803	696,051
412d	Free	10 p.c.	Free	10 p.c.	1,220,904	2,675,413
413	Free	5 p.c.	Free	5 p.c.	4,166,554	13,034,803
414 (i)	Free	20 p.c.	Free	20 p.c.	238,035	590,830
(ii)	Free	20 p.c.	Free	15 p.c.	1,057,986	1,255,578
414a	10 p.c.	12½ p.c.	10 p.c.	12½ p.c.	157,375	419,339
414c (i)	Free	12½ p.c.	Free	10 p.c.	1,104,088	2,505,284
(ii)	Free	20 p.c.	Free	17½ p.c.	170,517	659,623
	Free	20 p.c.	Free	15 p.c.		
415	5 p.c.	20 p.c.	5 p.c.	20 p.c.	774,984	1,801,844
415a (i)	20 p.c.	25 p.c.	20 p.c.	22½ p.c.	969,944	1,282,513
(ii)	20 p.c.	25 p.c.	20 p.c.	22½ p.c.	219,069	457,965
415b	15 p.c.	25 p.c.	15 p.c.	22½ p.c.	841,907	1,121,968
415c	20 p.c.	25 p.c.	20 p.c.	22½ p.c.	109,348	205,250
415d	5 p.c.	15 p.c.	5 p.c.	15 p.c.	1,128,430	2,722,417
422	Free	30 p.c.	Free	25 p.c.	81,127	318,432
422a	Free	10 p.c.	Free	10 p.c.	504,958	2,829,391
423	Free	30 p.c.	Free	22½ p.c.	11,122	102,010
424	Free	30 p.c.	Free	25 p.c.	16,493	109,487
424a	22½ p.c.	30 p.c.	22½ p.c.	20 p.c.	97,969	607,097
425	10 p.c.	30 p.c.	10 p.c.	25 p.c.	113,698	368,785
ex 425	10 p.c.	15 p.c.	10 p.c.	15 p.c.	*	*
427	10 p.c.	25 p.c.	10 p.c.	25 p.c.	(a)20,488,158	(a)78,797,186
ex 427	10 p.c.	5 p.c.	10 p.c.	5 p.c.	8,302	29,656
ex 427	10 p.c.	5 p.c.	10 p.c.	5 p.c.	65,171	260,485
ex 427	10 p.c.	5 p.c.	10 p.c.	5 p.c.	77,695	297,160
427a	Free	10 p.c.	Free	10 p.c.	*	*

* Not separately recorded.

(a) Includes imports under Tariff Item 410m.

(a) Includes imports under Tariff Item 427a.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURIED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
ex 427b	Free	17½ p.c.	Free	17½ p.c.	990,673	4,865,359
427c	Free	15 p.c.	Free	15 p.c.	210,454	796,393
427d	Free	27½ p.c.	Free	25 p.c.	.....	.....
427e	Free	10 p.c.	Free	10 p.c.	107,302	222,758
427h	Free	15 p.c.	Free	15 p.c.	335,784	1,060,087
428c	15 p.c.	25 p.c.	15 p.c.	20 p.c.	(a) 1,158,568	(a) 7,189,054
428d	Free	10 p.c.	Free	10 p.c.	8,990	55,318
428e	Free	20 p.c.	Free	20 p.c.	(b) 1,337,272	(b) 8,867,634
428f	Free	20 p.c.	Free	20 p.c.	46,110	237,011
429 (b)	15 p.c.	30 p.c.	15 p.c.	25 p.c.	159,948	573,821
(c)	Free	30 p.c.	Free	20 p.c.	142,847	717,347
429 (d)	Free	30 p.c.	Free	20 p.c.	182,205	316,385
(e)	15 p.c.	30 p.c.	15 p.c.	25 p.c.	37,613	176,072
(f)	Free	30 p.c.	Free	20 p.c.	176,419	486,040
(g)	Free	30 p.c.	Free	27½ p.c.	306,336	372,740
	Free	25 p.c.	Free	20 p.c.		
430	25 cts. 100 lbs. and 7½ p.c.	50 cts. 100 lbs. and 17½ p.c.	25 cts. 100 lbs. and 7½ p.c.	50 cts. 100 lbs. and 17½ p.c.	216,790	1,015,598
430a	75 cts. 100 lbs. and 5 p.c.	75 cts. 100 lbs. and 24½ p.c.	75 cts. 100 lbs. and 5 p.c.	75 cts. 100 lbs. and 20 p.c.	105,903	292,212
430b (I)	15 p.c.	25 p.c.	15 p.c.	20 p.c.	31,067	11,814
(II)	15 p.c.	25 p.c.	15 p.c.	50 cts. 100 lbs. and 17½ p.c.	129,031	825,172
431b	10 p.c.	27½ p.c.	10 p.c.	25 p.c.	1,273,190	4,095,556
431c	Free	10 p.c.	Free	10 p.c.	393,247	1,418,898
431d	Free	10 p.c.	Free	10 p.c.		
431e	15 p.c.	25 p.c.	15 p.c.	22½ p.c.	79,186	271,656
431f	Free	27½ p.c.	Free	25 p.c.	226,924	302,055
431g	Free	20 p.c.	Free	20 p.c.	5,539	156,834
432	10 p.c.	25 p.c.	10 p.c.	20 p.c.	82,135	341,643
432a	15 p.c.	25 p.c.	15 p.c.	20 p.c.	54,881	137,447
432b	17½ p.c.	30 p.c.	17½ p.c.	22½ p.c.	179,884	648,324
432c	10 p.c.	22½ p.c.	10 p.c.	20 p.c.	382,905	352,349
432d	15 p.c.	25 p.c.	15 p.c.	20 p.c.	943,336	1,459,060
433	5 p.c.	25 p.c.	5 p.c.	20 p.c.	160,129	494,274

(a) Includes gas engines imported under Tariff Item 440g.

(b) Includes diesel and semi-diesel engines and parts imported under 440g, and the parts specified in Tariff Item 428g.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURIED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
434	15 p.c.	30 p.c.	15 p.c.	25 p.c.	(a) \$ 87,557	(a) \$ 282,202
ex 434	15 p.c.	30 p.c.	15 p.c.	20 p.c.	*	*
434a	Free	30 p.c.	Free	20 p.c.	49,049	110,352
434b (i)	7½ p.c.	30 p.c.	7½ p.c.	27½ p.c.	192,252	288,244
(ii)	7½ p.c.	27½ p.c.	7½ p.c.	27½ p.c.	162,330	636,383
435 (a)	Free	12½ p.c.	Free	Free	229,526	3,167,393
(b)	Free	12½ p.c.	Free	10 p.c.		
438	15 p.c.	27½ p.c.	15 p.c.	22½ p.c.	379,198	923,259
438a	Free	17½ p.c.	Free	17½ p.c.	15,829,815	38,451,124
438e (1) (a)	Free	25 p.c.	Free	25 p.c.	222,568	623,889
(b)	15 p.c.	25 p.c.	15 p.c.	25 p.c.		
(2)	Free	25 p.c.	Free	25 p.c.	1,878,671	5,343,628
(3)	Free	30 p.c.	Free	30 p.c.	10,085,696	30,877,494
		25 p.c.	.....	25 p.c.		
438g	Free	17½ p.c.	Free	17½ p.c.	341,873	946,489
438j	Free	30 p.c.	Free	25 p.c.	*	110,210
439	20 p.c.	27½ p.c.	20 p.c.	25 p.c.	69,673	572,920
439a	15 p.c.	27½ p.c.	10 p.c.	22½ p.c.	98,399	(b) 198,321
439b	15 p.c.	27½ p.c.	10 p.c.	22½ p.c.	204,291	911,674
439c	Free	15 p.c.	Free	15 p.c.	25,562	202,996
439f	15 p.c.	30 p.c.	15 p.c.	22½ p.c.	70,677	246,907
ex 440g	Free	Free	Free	Free	*	*
440j	Free	20 p.c.	Free	20 p.c.	362,833	921,842
440l (i)	Free	20 p.c.	Free	15 p.c.	(e) 550,320	(c) 9,447,981
(ii)	Free	15 p.c.	Free	15 p.c.		
440m (i)	Free	Various	Free	15 p.c.	*	*
440n	Free	17½ p.c.	Free	15 p.c.	2,192,767	1,485,395
440o (i)	Free	17½ p.c.	Free	Free	298,582	911,460
(ii)	Free	Various	Free	5 p.c.		
440p	Free	Various	Free	Free	*	*
441	10 p.c.	27½ p.c.	10 p.c.	22½ p.c.	756,192	1,127,792
441e	5 p.c.	15 p.c.	Free	10 p.c.	244,134	604,487
442	5 p.c.	5 p.c.	Free	Free	1,955,695	1,710,742

* Not separately recorded.

(a) Includes imports under Tariff Item ex 434.

(b) Includes imports under Tariff Item 446b.

(c) Includes imports under Tariff Items 440m (i) and 440p.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURABLE-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
443 (1)	15 p.c.	25 p.c.	15 p.c.	22½ p.c.	142,600	64,949
(2)	15 p.c.	25 p.c.	15 p.c.	22½ p.c.	202,953	399,492
(3)	15 p.c.	25 p.c.	15 p.c.	22½ p.c.	435,337	951,596
(4)	15 p.c.	25 p.c.	15 p.c.	22½ p.c.	306,157	2,134,548
(5)	15 p.c.	25 p.c.	15 p.c.	22½ p.c.	1,183,457	6,565,922
444a	15 p.c.	27½ p.c.	15 p.c.	22½ p.c.	135,385	326,316
444b	15 p.c.	27½ p.c.	15 p.c.	22½ p.c.	90,298	132,983
445	20 p.c.	27½ p.c.	20 p.c.	22½ p.c.	939,429	3,272,895
445a	20 p.c.	27½ p.c.	20 p.c.	22½ p.c.	350,245	1,543,174
445b	20 p.c.	30 p.c.	20 p.c.	25 p.c.	349,786	744,487
445c (i)	Free	25 p.c.	Free	20 p.c.	173,250	621,803
(ii)	10 p.c.	25 p.c.	10 p.c.	22½ p.c.	1,113,753	3,490,286
445d	Free	25 p.c.	Free	20 p.c.	2,673,191	7,680,811
445e	15 p.c.	25 p.c.	15 p.c.	22½ p.c.	(a) 361,401	(a) 1,287,703
445f	15 p.c.	25 p.c.	15 p.c.	22½ p.c.	621,156	2,981,585
445g	15 p.c.	25 p.c.	15 p.c.	22½ p.c.	1,822,699	4,620,080
445h	15 p.c.	25 p.c.	15 p.c.	22½ p.c.	269,690	708,992
445i	15 p.c.	25 p.c.	12½ p.c.	22½ p.c.	106,397	286,349
445j	Free	Free	Free	Free	205,720	497,218
445k	15 p.c.	25 p.c.	15 p.c.	22½ p.c.	3,662,744	12,821,678
445l	Free	25 p.c.	Free	20 p.c.	*	*
445m	Free	20 p.c.	Free	20 p.c.	3,419	9,888
445n	Free	17½ p.c.	Free	15 p.c.	225,840	947,462
445o	Free	Free	Free	Free	278,376	2,477,258
445p	Free	Free	Free	Free	103,644	644,133
446	Free	20 p.c.	Free	20 p.c.	380,488	547,016
446a	10 p.c.	25 p.c.	10 p.c.	25 p.c.	9,676,031	30,286,807
ex 446a	Free	7½ p.c.	Free	5 p.c.	111,682	1,619,806
ex 446a	Free	10 p.c.	Free	10 p.c.	*	*
ex 446a	10 p.c.	15 p.c.	10 p.c.	15 p.c.	48,020	644,239
ex 446a	Free	12½ p.c.	Free	12½ p.c.	23,833	21,282
446b	Free	27½ p.c.	Free	27½ p.c.	31,803	*
446c	Free	15 p.c.	Free	15 p.c.	77,977	75,778

* Not separately recorded.

(a) Includes certain batteries and parts imported under Tariff Item 4451.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939 \$	1946 \$
446d	Free	20 p.c.	Free	20 p.c.	197,132	560,583
446f	Free	25 p.c.	Free	22½ p.c.	14,932	107,006
ex 446g	5 p.c.	20 p.c.	5 p.c.	20 p.c.	*	*
446i	10 p.c.	25 p.c.	Free	10 p.c.	.....	(a) 61,620
447	Free	25 p.c.	Free	22½ p.c.	66,193	266,577
447a	Free	Free	Free	Free	367,115	546,641
ex 450	15 p.c.	25 p.c.	15 p.c.	15 p.c.	*	*
451	15 p.c.	27½ p.c.	15 p.c.	25 p.c.	273,859	608,061
451a (i)	10 p.c.	30 p.c. and \$1.50 per 1000	10 p.c.	25 p.c. and \$1.50 per 1000	24,465	20,763
(ii)	10 p.c.	30 p.c.	10 p.c.	25 p.c.	298,496	491,099
451b (i)	17½ p.c.	27½ p.c. and 10 cts. lb.	Free	5 p.c.	.....	21,855
(ii)	17½ p.c.	27½ p.c. and 10 cts. lb.	15 p.c.	25 p.c. and 10 cts. lb.	101,349	179,266
451e	30 p.c.	37½ p.c.	25 p.c.	30 p.c.	235,287	28,261
454	Free	12½ p.c.	Free	12½ p.c.	158,453	543,873
461	10 p.c.	27 p.c.	10 p.c.	20 p.c.	296,145	755,666
461a	10 p.c.	27 p.c.	Free	Free	.....	59,729
462 (i)	2½ p.c.	17½ p.c.	2½ p.c.	15 p.c.	701,916	2,417,657
(ii)(a)	5 p.c.	20 p.c.	5 p.c.	17½ p.c.	442,312	1,215,855
(b)	7½ p.c.	20 p.c.	7½ p.c.	20 p.c.	}	
462b	Free	9 p.c.	Free	9 p.c.	13,205	16,609
465	10 p.c.	25 p.c.	10 p.c.	20 p.c.	116,838	180,772
469	10 p.c.	20 p.c.	10 p.c.	20 p.c.	38,101	92,634
471a	Free	20 p.c.	Free	20 p.c.	23,944	413
475b	Free	½ ct. sq. in.	Free	½ ct. sq. in.	20,406	16,246
476	Free	Free	Free	Free	1,948,117	6,055,205
488	Free	10 p.c.	Free	10 p.c.	31,361	50,018
494	Free	15¾ p.c.	Free	15 p.c.	302,794	236,927
495	4 cts. lb.	4½ cts. lb.	4 cts. lb.	4½ cts. lb.	99,210	118,288
498	Free	10 p.c.	Free	Free	2,106	(b) 25,872
500	Free	Free	Free	Free	1,038,939	(c) 1,014,123
502	Free	Free	Free	Free	507,006	1,491,242
503	Free	Free	Free	Free	(d) 3,360,971	(d) 5,116,953

* Not separately recorded.

(a) Prior to February 15, 1946, these stampings were dutiable under Tariff Item 446a.

(b) Includes imports under Item 752.

(c) Includes imports of felloes of hickory or oak, Item 502.

(d) Includes imports under Items 504 and 505.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURIED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948. IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
504	Free	Free	Free	Free	*	*
505	10 p.c.	10 p.c.	10 p.c.	10 p.c.	*	*
505a	17½ p.c.	17½ p.c.	17½ p.c.	12½ p.c.	84,223	57,840
506	17½ p.c.	20 p.c.	17½ p.c.	20 p.c.	1,379,570	3,201,189
ex 506	17½ p.c.	Free	17½ p.c.	Free	*	*
506b	Free	22½ p.c.	Free	22½ p.c.	4,532	38,364
507	Free	10 p.c.	Free	10 p.c.	35,235	195,391
507a	10 p.c.	20 p.c.	10 p.c.	15 p.c.	282,294	658,275
507c	17½ p.c.	22½ p.c.	17½ p.c.	20 p.c.	72,972	45,012
507e	5 p.c.	20 p.c.	5 p.c.	20 p.c.	3,115	11
509	17½ p.c.	17½ p.c.	17½ p.c.	17½ p.c.	224,173	555,748
ex 511	20 p.c.	30 p.c.	20 p.c.	22½ p.c.	*	*
ex 362c	17½ p.c.	30 p.c.	17½ p.c.			
511a	Free	30 p.c.	Free	30 p.c.	7,516	7,794
511b	Free	25 p.c.	Free	20 p.c.	64,658	192,336
512	17½ p.c.	27½ p.c.	17½ p.c.	20 p.c.	140,383	268,609
518 (i)	17½ p.c.	27½ p.c.	17½ p.c.	22½ p.c.	178,635	285,576
(ii)	17½ p.c.	30 p.c.	17½ p.c.	30 p.c.	12,900	13,146
519 (i)	15 p.c.	32½ p.c.	15 p.c.	27½ p.c.	727,474	1,935,083
(ii)	15 p.c.	27½ p.c.	15 p.c.	25 p.c.	735,817	1,477,014
ex 520	Free	Free	Free	Free	16,815,259	44,396,581
522	12½ p.c.	15 p.c. and 3 cts. lb.	12½ p.c.	15 p.c. and 3 cts. lb.	40,136	252,672
522b	7½ p.c.	15 p.c.	7½ p.c.	15 p.c.	78,555	61,024
522c (i)	15 p.c.	20 p.c. and 3 cts. lb.	15 p.c.	17½ p.c. and 3 cts. lb.	420,605	2,932,036
(ii)	7½ p.c.	15 p.c.	7½ p.c.	10 p.c.	23,993	62,926
(iii)	15 p.c.	22½ p.c.	15 p.c.	20 p.c.	13,003	52,155
522d	Free	22½ p.c.	Free	20 p.c.	482,641	580,737
522e	7½ p.c.	12½ p.c.	5 p.c.	10 p.c.	264,986	1,097,480
522f	Free	15 p.c.	Free	15 p.c.	969,094	1,715,316
523	15 p.c.	17½ p.c. and 3 cts. lb.	15 p.c.	15 p.c. and 3 cts. lb.	2,414,514	10,636,511
ex 523	15 p.c.	27½ p.c.	15 p.c.	22½ p.c.	10,495	*
523a	20 p.c.	20 p.c. and 3 cts. lb.	17½ p.c.	17½ p.c. and 3 cts. lb.	866,407	7,117,024

* Not separately recorded.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURIED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
523b (i)	20 p.c.	20 p.c. and 3 cts. lb.	17½ p.c.	17½ p.c. and 3 cts. lb.	773,329	30,037,706
(ii)	20 p.c.	25 p.c. and 3 cts. lb.	17½ p.c.	22½ p.c. and 3 cts. lb.	1,105,984	1,348,524
(iii)	20 p.c.	27½ p.c. and 3½ cts. lb.	17½ p.c.	25 p.c. and 3½ cts. lb.	1,097,921	21,749
(iv)	20 p.c.	20 p.c. and 3 cts. lb.	17½ p.c.	17½ p.c. and 3 cts. lb.	24,657	786,632
523c	Free	27½ p.c.	Free	27½ p.c.	541,004	190
523e	15 p.c.	27½ p.c. and 3½ cts. lb.	15 p.c.	25 p.c. and 3½ cts. lb.	303,859	1,992,279
523f	Free	12½ p.c.	Free	12½ p.c.	92,585	198,560
523j	12½ p.c.	27½ p.c. and 3½ cts. lb.	10 p.c.	25 p.c. and 3½ cts. lb.	69,260	3,380
523k	12½ p.c.	27½ p.c. and 3½ cts. lb.	10 p.c.	25 p.c. and 3½ cts. lb.	66,832	202,588
523l	12½ p.c.	20 p.c. and 3 cts. lb.	12½ p.c.	20 p.c. and 3 cts. lb.	66,292	
524a	5 p.c.	27½ p.c. and 3½ cts. lb.	5 p.c.	25 p.c. and 3½ cts. lb.	556,972	606,731
525	Free	30 p.c.	Free	27½ p.c.	55,433	137,643
528	Free	25 p.c.	Free	12½ p.c.	18,504	531
529	20 p.c.	27½ p.c. and 3½ cts. lb.; 22 p.c. and 2·8 cts. lb.	15 p.c.	20 p.c. and 3 cts. lb.	299,389	1,267,649
529a	7½ p.c.	10½ p.c.	7½ p.c.	10 p.c.	152,931	701,698
530	7½ p.c.	17½ p.c.	7½ p.c.	15 p.c.	106,988	255,015
532 (i)	25 p.c.	30 p.c.	25 p.c.	25 p.c.	2,964,567	5,242,322
(ii)	25 p.c.	30 p.c.	22½ p.c.	27½ p.c.	281,959	146,282
(iii)	25 p.c.	30 p.c.	22½ p.c.	27½ p.c.	800,430	1,114,827
(iv)	25 p.c.	27½ p.c.	20 p.c.	22½ p.c.	18,999	(a) 302,682
532a	15 p.c.	30 p.c.	12½ p.c.	27½ p.c.	677,361	745,823
532b	15 p.c.	30 p.c.	15 p.c.	27½ p.c.	38,873	46,284
535	Free	Free	Free	Free	2,743,160	10,207,751
535a	Free	17½ p.c.	Free	10 p.c.	13,807	130,745
537	12½ p.c.	17½ p.c.	12½ p.c.	17½ p.c.	21,052	154,238

* Not separately recorded.

(a) Includes seamless cotton bags.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURLED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
ex 537	(12½ p.c.	(17½ p.c.	(12½ p.c.	Free	*	*
ex 537a	17½ p.c.	22½ p.c.	17½ p.c.			
537a	17½ p.c.	22½ p.c.	15 p.c.	20 p.c.	110,435	210,281
537b	Free	22½ p.c.	Free	17½ p.c.	266,493	516,072
537d	Free	17½ p.c.	Free	17½ p.c.	149,874	137,071
537e	25 p.c.	30 p.c.	20 p.c.	25 p.c.	22,039	64,107
538	Free	Free	Free	Free	1,491,964	170
539	17½ p.c.	22½ p.c.	17½ p.c.	22½ p.c.	146,907	117,619
540 (a)	Free	30 p.c. and 3½ cts. lb.	Free	22½ p.c. and 3 cts. lb.	665,496	(a) 1,434,082
(b)	Free	30 p.c. and 3½ cts. lb.	Free	20 p.c. and 3 cts. lb.	1,285,984	3,329,192
(c)	22½ p.c. and 3 cts. lb.	30 p.c. and 3½ cts. lb.	15 p.c. and 3 cts. lb.	20 p.c. and 3½ cts. lb.	222,537	364,572
(d)	25 p.c. and 3 cts. lb.	30 p.c. and 3½ cts. lb.	15 p.c. and 3 cts. lb.	20 p.c. and 3½ cts. lb.	152,240	444,394
541a	Free	22½ p.c.	Free	22½ p.c.	33,766	51,088
541d	15 p.c.	30 p.c. and 3½ cts. lb.	15 p.c.	25 p.c. and 3½ cts. lb.	17,717	19,074
542	20 p.c.	24½ p.c.	17½ p.c.	20 p.c.	67,132	29,731
542a	22½ p.c.	27½ p.c.	22½ p.c.	27½ p.c.	142,559	759,517
542b	15 p.c.	32½ p.c.	15 p.c.	30 p.c.	22,616	91,170
545	12½ p.c.	14 p.c.	12½ p.c.	12½ p.c.	*	*
546	12½ p.c.	25 p.c. 22½ p.c.	12½ p.c.	22½ p.c.	22,675	25,312
547	15 p.c.	17½ p.c.	15 p.c.	17½ p.c.	127,429	1,507,144
548	25 p.c.	30 p.c.	25 p.c.	25 p.c.	1,149,367	1,399,414
548a	Free	30 p.c. and 3½ cts. lb.	Free	25 p.c. and 3½ cts. lb.	1,406	266
549 (i)	Free	10 cts. lb.	Free	10 cts. lb.	10,316,531	29,519,577
(ii)	Free	10 cts. lb.	Free	Free	*	*
(iii)	Free	8 cts. lb.	Free	Free	413	80,839
549b	12½ p.c.	17½ p.c. 14½ p.c.	12½ p.c.	15 p.c.	10,132	71,331
549c	17½ p.c.	27½ p.c.	17½ p.c.	27½ p.c.	24,930	26,472
ex 549d	22½ p.c.	30 p.c.	22½ p.c.	15 p.c.	*	*
550c	Free	Free	Free	Free	270,053	224,122

* Not separately recorded.

(a) Includes imports under Item 540(c).

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURLED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—Con.

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
551	15 p.c. and 6 cts. lb.	20 p.c. and 20 cts. lb.	15 p.c. and 5 cts. lb.	17½ p.c. and 20 cts. lb.	549,690	629,518
551a	10 p.c. and 5 cts. lb.	17½ p.c. and 15 cts. lb.	15 p.c. and 5 cts. lb.	15 p.c. and 15 cts. lb.	1,645,806	5,176,259
551c	Free	17½ p.c. and 15 cts. lb.	Free	17½ p.c. and 15 cts. lb.	68,563	87,070
551d	Free	17½ p.c. and 15 cts. lb.	Free	15 p.c. and 15 cts. lb.	65,051	55,010
552	15 p.c. and 5 cts. lb.	22½ p.c. and 17½ cts. lb.	15 p.c. and 5 cts. lb.	20 p.c. and 17½ cts. lb.	26,154	92,062
ex552	Free	10 p.c.	Free	10 p.c.	*	*
ex553	20 p.c. and 5 cts. lb.	20 p.c. and 5 cts. lb.	20 p.c. and 5 cts. lb.	17½ p.c. and 5 cts. lb.	167,827	619,753
ex553	20 p.c. and 5 cts. lb.	30 p.c. and 25 cts. lb.	20 p.c. and 5 cts. lb.	25 p.c. and 20 cts. lb.	369,432	690,737
553a	Free	5 p.c.	Free	5 p.c.	105,003	170,658
554	17½ p.c. and 7½ cts. lb.	25 p.c. and 17½ cts. lb.	15 p.c. and 7½ cts. lb.	20 p.c. and 17½ cts. lb.	596,056	757,329
554a	Free	20 p.c.	Free	20 p.c.	65,920	38,655
554b	†22½ p.c. and 12 cts. lb.	35 p.c. and 30 cts. lb.	†20 p.c. and 12 cts. lb.	27½ p.c. and 30 cts. lb.	8,833,347	16,540,776
ex554b	22½ p.c. and 12 cts. lb.	35 p.c. and 30 cts. lb.	22½ p.c. and 12 cts. lb.	†27½ p.c. and 30 cts. lb.	*	*
554c	Free	25 p.c. and 17½ cts. lb.	Free	20 p.c. and 15 cts. lb.	766,675	1,659,711
ex554e ex549d	20 p.c. 22½ p.c.	35 p.c. and 30 cts. lb.; 30 p.c.	Free	15 p.c. and 30 cts. lb.	15,566	46,229
554f	Free	35 p.c. and 30 cts. lb.	Free	20 p.c. and 25 cts. lb.	50,227	88,054
555	30 p.c. 30 p.c.	40 p.c. and 32½ cts. lb.; 32½ p.c.	25 p.c.	27½ p.c.	929,534	2,372,063
556a	Free	35 p.c. and 30 cts. lb.	Free	27½ p.c. and 20 cts. lb.	8,647	27,211
556b	Free	35 p.c.	Free	27½ p.c.	-	-
558b(a)	5 p.c.	30 p.c. but not less than 28 cts. lb.	5 p.c.	25 p.c. but not less than 24 cts. lb.	396,824	1,735,375
(b)	20 p.c.	30 p.c. but not less than 28 cts. lb.	20 p.c.	15 p.c. but not less than 24 cts. lb.	734,446	2,608,196

* Not separately recorded.

† (Provided, that the sum of the specific and *ad valorem* duties shall not be in excess of 50 cents per pound.)

‡ (Provided, that the sum of the specific and *ad valorem* duties shall not be in excess of \$1.00 per pound).

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
558c (i)	15 p.c.	22½ p.c.	15 p.c.	22½ p.c.	45,349	15,443
(ii)	12½ p.c.	22½ p.c.	12½ p.c.	22½ p.c.	2,022	
558d(a)	7½ p.c.	30 p.c. but not less than 28 cts. lb.	7½ p.c.	25 p.c. but not less than 24 cts. lb.	15,379	46,144
(b)	25 p.c.	30 p.c. but not less than 28 cts. lb.	25 p.c.	25 p.c. but not less than 24 cts. lb.	406,467	896,449
558e	Free	7½ p.c.	Free	7½ p.c.	77,708	30,218
558f	Free	30 p.c. but not less than 28 cts. lb.	Free	25 p.c. but not less than 24 cts. lb.	93,813	14,729
560	17½ p.c.	30 p.c.	17½ p.c.	25 p.c.	9,607	
560a	22½ p.c.	36 p.c. and 10 cts. per lineal yard	22½ p.c.	30 p.c. and 7½ cts. per lineal yard	204,856	338,895
560b	17½ p.c.	29½ p.c.	17½ p.c.	25 p.c.	15,798	431
560c	17½ p.c.	32½ p.c.	17½ p.c.	25 p.c.	278,886	228,163
561	27½ p.c.	36 p.c. and 40 cts. lb.	22½ p.c.	27½ p.c. and 40 cts. lb.	1,709,343	6,969,198
562	22½ p.c.	27½ p.c.	22½ p.c.	25 p.c.	84,189	8,318
562a	22½ p.c.	27½ p.c.	22½ p.c.	25 p.c.	188,047	1,002,934
564	17½ p.c.	18 p.c.	17½ p.c.	15 p.c.	880,889	2,538,356
565	22½ p.c.	32½ p.c. 27½ p.c.	17½ p.c.	22½ p.c.	762,187	1,743,498
566	17½ p.c.	32½ p.c.	15 p.c.	30 p.c.	8,103	47,152
567	27½ p.c.	30 p.c. and 7 cts. oz.; 30 p.c.	27½ p.c.	30 p.c.	543,723	244,358
567a	25 p.c.	31½ p.c. and 4½ cts. oz.; 32½ p.c.	20 p.c.	27½ p.c.	1,106,337	2,622,939
567b	12½ p.c.	15½ p.c.	12½ p.c.	10 p.c.	31,469	7,613
568	20 p.c.	35 p.c. and 25 cts. lb.; 35 p.c.	20 p.c.	35 p.c.	1,237,246	5,673,702
568a (i)	20 p.c. and 30 cts. doz. pr.	32½ p.c. and \$1.35 doz. pr.	20 p.c. and 30 cts. doz. pr.	27½ p.c. and \$1.20 doz. pr.	475,473	572,792
(ii)	20 p.c.	20 p.c. and \$1.00 doz. pr.	20 p.c.	20 p.c. and 75 cts. doz. pr.	27,748	194,026
568b	20 p.c.	25 p.c.	20 p.c.	25 p.c.	1,528,104	1,425,560
ex 568b	20 p.c.	25 p.c.	20 p.c.	22½ p.c.	*	*

* Not separately recorded.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURIED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
568e	Free	22½ p.c.	Free	10 p.c.	10,068	86,375
569	22½ p.c.	30 p.c.	17½ p.c.	22½ p.c.	267,692	334,602
(i)						
569	22½ p.c. and	30 p.c. and	22½ p.c. and	27½ p.c. and	152,279	166,717
(v)	75 cts. doz.	\$1.50 doz.	75 cts. doz.	\$1.00 doz.		
569a	22½ p.c.	27 p.c. and	22½ p.c.	22½ p.c. and	918	674
(i)		58½ cts. doz.		50 cts. doz.		
569a	22½ p.c.	30 p.c.;	22½ p.c.	27½ p.c.	93,382	55,575
(ii)		27 p.c.				
569e	Free	Free	Free	Free	35,938	79,115
ex 571	15 p.c.	22½ p.c.	15 p.c.	20 p.c.	197,729	241,952
571a (i)	3 cts. sq. ft.	4 cts. sq. ft.	2½ cts. sq. ft.	3 cts. sq. ft.	5,725	240,428
(ii)	7½ cts. sq. yd.	9 cts. sq. yd.	6½ cts. sq. yd.	7½ cts. sq. yd.	20,777	96,200
572	30 p.c.	30 p.c. and	25 p.c.	25 p.c. and	842,379	4,756,355
		7½ cts. sq. ft.		5 cts. sq. ft.		
573	15 p.c.	30 p.c.	15 p.c.	27½ p.c.	972,805	2,239,476
574a	20 p.c.	29½ p.c.	20 p.c.	25 p.c.	166,551	196,168
578	22½ p.c.	30 p.c.	22½ p.c.	27½ p.c.	153,130	162,716
584	Free	Free	Free	Free	723,392	1,624,635
585	Free	Free	Free	Free	359,056	365,307
586	Free	50 cts. ton	Free	Free	21,898,613	41,765,949
587	Free	\$1.00 ton	Free	\$1.00 ton	1,894,401	5,795,995
588	35 cts. ton	75 cts. ton	35 cts. ton	50 cts. ton	18,918,295	77,273,388
588a	.....	3 cts. per thousand cu. ft.	.....	3 cts. per thousand cu. ft.	75,380	239,081
589	Free	\$4.00 ton	Free	\$4.00 ton	14,750	24,340
597 (i)	20 p.c.	24½ p.c. 25 p.c.	20 p.c.	22½ p.c.	72,691	163,980
(ii)	20 p.c.	24½ p.c. 25 p.c.	20 p.c.	15 p.c.	2,884	5,691
597a (i)	15 p.c.	24½ p.c.	15 p.c.	17½ p.c.	246,049	687,029
(ii)	15 p.c.	24½ p.c.	15 p.c.	20 p.c.	569,707	2,080,165
(iii)	15 p.c.	24½ p.c.	15 p.c.	20 p.c.	*	*
ex 597a	15 p.c.	Free	15 p.c.	Free	*	*
597b	Free	24½ p.c.	Free	15 p.c.	.....	2,444
597c	10 p.c.	20 p.c.	10 p.c.	15 p.c.	.....	62,177
598 (i)	Free	22½ p.c.	Free	20 p.c.	16,897	(a) 179,194

* Not separately recorded.

(a) Includes brass band instruments not made in Canada.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOUR-
NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS
FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I
OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
(ii)	Free	22½ p.c.	Free	15 p.c.	26,014	138,721
(iii)	Free	22½ p.c.	Free	20 p.c.		
598a (i)	Free	25 p.c.	Free	17½ p.c.	78,791	*
(ii)	Free	25 p.c.	Free	25 p.c.		
599	Free	Free	Free	Free	6,173,395	5,589,946
601	Free	Free	Free	Free	5,053,451	15,768,008
602	Free	Free	Free	Free	23,484	115,428
603	10 p.c.	13½ p.c.	10 p.c.	12½ p.c.	924,216	3,171,758
ex603	10 p.c.	13½ p.c.	10 p.c.	Free	*	*
604 (i)	7½ p.c.	20 p.c.	7½ p.c.	17½ p.c.	1,791,804	1,493,154
(ii)	7½ p.c.	25 p.c.	7½ p.c.	22½ p.c.	*	*
604a	Free	24½ p.c.	Free	10 p.c.	17,230	1,717
604b	12½ p.c.	25 p.c.	12½ p.c.	22½ p.c.	100,808	36,570
605 (i)	Free	15 p.c.	Free	15 p.c.	332,320	(a) 25,351
(ii)	Free	15 p.c.	Free	7½ p.c.		
605a	Free	25 p.c.	Free	20 p.c.	217,146	209,910
606	20 p.c. and 4 cts. sq. ft.	25 p.c. and 4 cts. sq. ft.	20 p.c. and 2 cts. sq. ft.	25 p.c. and 2 cts. sq. ft.	1,350	*
607	Free	7½ p.c.	Free	7½ p.c.	476,756	750,377
607 Pt. 2	Free	15 p.c.	Free	15 p.c.	43,055	*
607a	Free	15 p.c.	Free	15 p.c.	64,767	165,150
608	5 p.c.	15½ p.c.	5 p.c.	15 p.c.	(b) 173,160	(b) 598,666
609	10 p.c.	25 p.c.	10 p.c.	22½ p.c.	64,236	72,278
610	7½ p.c.	25 p.c.	7½ p.c.	20 p.c.	268,653	873,492
611a (i)	22½ p.c.	30 p.c.	20 p.c.	27½ p.c.	1,749,323	3,755,583
(ii)	22½ p.c.	35 p.c.	20 p.c.	27½ p.c.	47,682	6,131
611b	20 p.c.	30 p.c.	17½ p.c.	27½ p.c.	5,364	15,458
612	17½ p.c.	22½ p.c.	15 p.c.	20 p.c.	152,799	(c) 206,415
612a	10 p.c.	27½ p.c.	10 p.c.	27½ p.c.	4,685	*
613	20 p.c.	25 p.c.	17½ p.c.	22½ p.c.	376,874	660,324
616 ex (ii)	Free	Free	Free	Free	836,075	3,214,445
ex (iii)	Free	Free	Free	Free	447,537	367,331
616a	Free	10 p.c.	Free	10 p.c.	4,122	41,159

* Not separately recorded.

(a) Includes imports under Item 606.

(b) Includes imports under Items 608a and 608b.

(c) Includes English type saddles, Item 612a.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURLED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
616b	Free	10 p.c.	Free	10 p.c.	8,366	8,817
617	Free	22½ p.c.	Free	22½ p.c.	54,906	90,120
618	15 p.c.	22½ p.c.	15 p.c.	20 p.c.	1,858,538	4,032,433
618b	22½ p.c.	25 p.c.	22½ p.c.	25 p.c.	583,459	3,777,560
619	20 p.c.	22½ p.c.	20 p.c.	22½ p.c.	267,690	983,674
619a	25 p.c.	30 p.c.	22½ p.c.	27½ p.c.	100,419	776,043
622	15 p.c.	30 p.c.	12½ p.c.	22½ p.c.	160,518	600,107
623	15 p.c.	30 p.c.	12½ p.c.	22½ p.c.	1,491,370	2,553,815
624	20 p.c.	24½ p.c. 23½ p.c.	20 p.c.	17½ p.c.	188,222	976,412
624a (i)	10 p.c.	30 p.c.	10 p.c.	25 p.c.	61,557	211,689
	10 p.c.	30 p.c.	10 p.c.	30 p.c.	1,087,823	2,172,901
(ii)	10 p.c.	30 p.c.	10 p.c.	30 p.c.	218,293	371,479
624a(iii)(a)	Free	30 p.c.	Free	25 p.c.	40,911	156,669
(b)	Free	30 p.c.	Free	20 p.c.		
624b	Free	24½ p.c.	Free	17½ p.c.	48,079	500,353
625	15 p.c.	30 p.c.	15 p.c.	25 p.c.	215,664	1,415,243
628	15 p.c.	27 p.c.	15 p.c.	22½ p.c.	127,929	174,618
629	22½ p.c.	27 p.c.	22½ p.c.	25 p.c.	46,944	147,978
634	20 p.c.	23½ p.c.	20 p.c.	22½ p.c.	266,162	454,601
642	Free	Free	Free	Free	916,182	4,882,359
647	25 p.c.	35 p.c.	22½ p.c.	32½ p.c.	1,048,284	3,442,491
ex 648a	Free	Free	Free	Free	(a)1,405,792	(a)6,103,856
649	Free	20½ p.c.	Free	20 p.c.	771	76
650a	Free	Free	Free	Free	106,200	141,670
651	20 p.c. and 5 cts. gross	30 p.c. and 5 cts. gross	20 p.c. and 5 cts. gross	25 p.c. and 5 cts. gross	224,764	758,718
651a	20 p.c. and 5 cts. gross	30 p.c. and 10 cts. gross	20 p.c. and 5 cts. gross	25 p.c. and 10 cts. gross	352	110
652	10 p.c.	25 p.c. and \$1.50 gross	10 p.c.	20 p.c. and \$1.44 gross	129,953	151,876
653	15 p.c.	27 p.c.	15 p.c.	25 p.c.	334,440	713,230
654 (i)	Free	Free	Free	Free	477,949	1,268,417
(ii)	Free	Free	Free	Free	261,420	1,038,034
655 (i)	12½ p.c.	25 p.c.	12½ p.c.	22½ p.c.	144,847	557,365

* Not separately recorded.

(a) Covers diamonds, unset, both rough and polished.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURIED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
(ii)	12½ p.c.	25 p.c.	Free	12½ p.c.	\$ *	\$ *
655a	10 p.c.	35 p.c.	10 p.c.	30 p.c.	(a) 276,724	(a) 493,916
655b	10 p.c.	20 p.c.	10 p.c.	20 p.c.	*	*
656 (a)	17½ p.c.	29½ p.c.	17½ p.c.	22½ p.c.	454,539	1,678,671
(b)	17½ p.c.	29½ p.c.	17½ p.c.	25 p.c.		
(c)	17½ p.c.	29½ p.c.	17½ p.c.	25 p.c.		
(d)	17½ p.c.	32½ p.c.	17½ p.c.	25 p.c.	351,580	643,745
657a	1½ cts. linear ft.	2½ cts. linear ft.; 1½ cts. linear ft.	1½ cts. linear ft.	1½ cts. linear ft.		
657b	Free	5 p.c.	Free	5 p.c.	77,657	112,366
658	Free	3 cts. linear ft.; Free; 1½ cts. linear ft.	Free	Free	23,475	53,250
659	15 p.c.	27½ p.c.	15 p.c.	25 p.c.		
662	Free	Free	Free	Free	622,725	2,397,623
663	Free	5 p.c.	Free	5 p.c.	1,216,884	1,555,235
663b	Free	Free	Free	Free	1,382,723	305,397
663c	Free	Free	Free	Free	571,508	114,777
663e	Free	22½ p.c.	Free	15 p.c.	406	-
663f	Free	22½ p.c.	Free	15 p.c.	2,647	5,269
669	Free	Free	Free	Free	55,967	114,029
670	10 p.c.	22½ p.c.	10 p.c.	20 p.c.	166,864	575,059
674	Free	Free	Free	Free	23,069	*
680	Free	Free	Free	Free	12,282	16,299
680a	Free	17½ p.c.	Free	15 p.c.	72,000	214,546
683	Free	25 p.c.	Free	25 p.c.	38,607	42,904
684	Free	10 p.c.	Free	10 p.c.	49,697	110,462
685	Free	Free	Free	Free	69,755	87,858
688	Free	Free	Free	Free	439,102	1,038,793
689	Free	25 p.c.	Free	25 p.c.	104,858	172,488
710 (b)	10 p.c.	18 p.c.	Free	7½ p.c.	1,225,258	1,472,996
(bb)	5 p.c.	15 p.c.	Free	7½ p.c.	39,918	125,691
711	15 p.c.	20 p.c.	15 p.c.	20 p.c.	3,642,243	13,920,727

* Not separately recorded.

(a) Includes imports under Item 655b.

STATEMENT SHOWING THE BRITISH PREFERENTIAL AND MOST-FAVOURIED-NATION RATES IN EFFECT ON JULY 1, 1939, AND ON JANUARY 1, 1948, AND IMPORTS FOR THE CALENDAR YEARS 1939 AND 1946 OF THE PRODUCTS LISTED IN PART I OF SCHEDULE V TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE—*Con.*

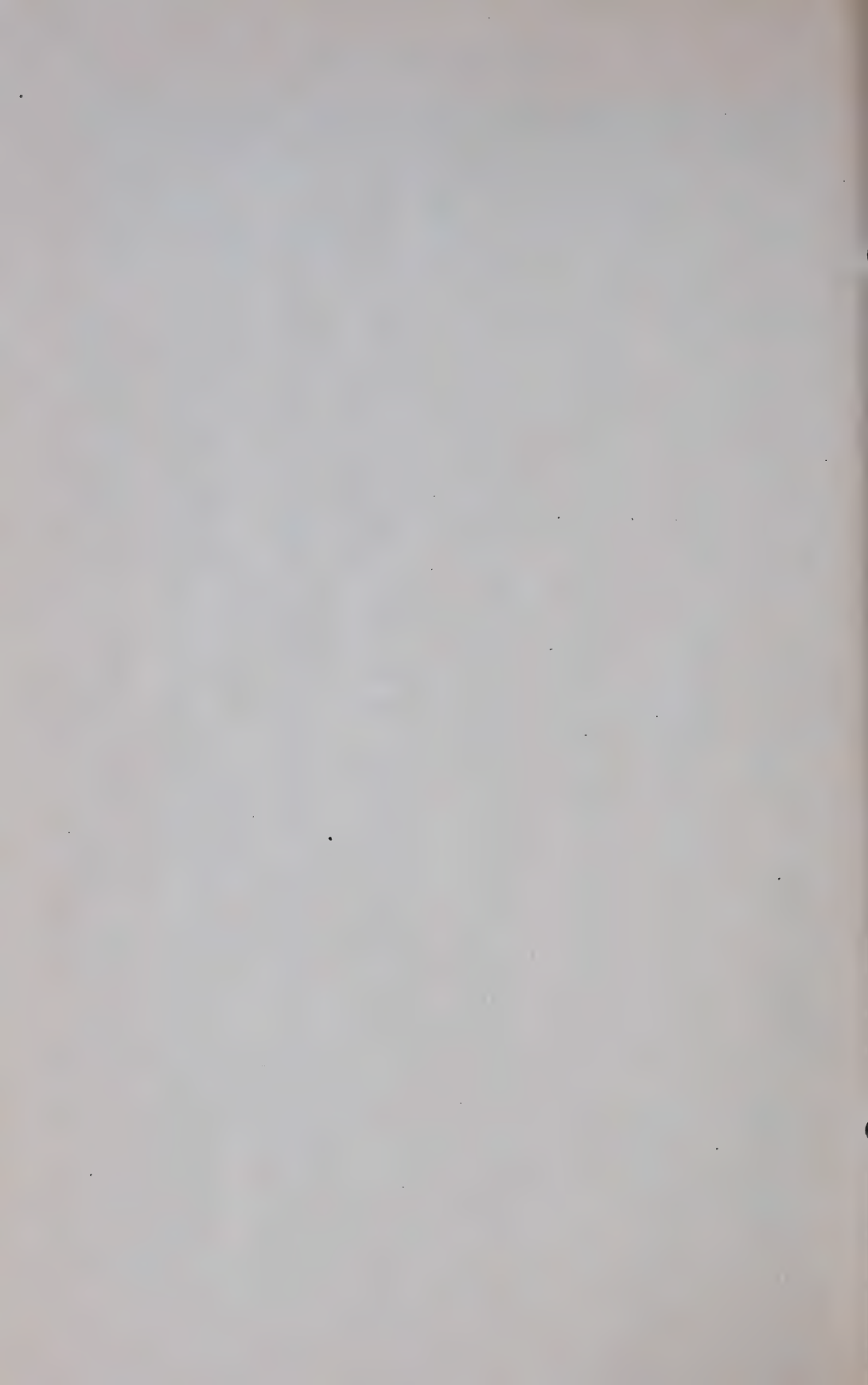
Tariff Item Number	Rates in Effect on July 1, 1939		Rates in Effect on January 1, 1948		Imports from all Countries	
	B.P.	M.F.N.	B.P.	M.F.N.	1939	1946
					\$	\$
ex 711 granules	15 p.c.	20 p.c.	15 p.c.	15 p.c.	*	*
ex 711 grits, etc.	15 p.c.	20 p.c.	15 p.c.	10 p.c.	16,251	94,392
ex 711 coloring	15 p.c.	20 p.c.	15 p.c.	10 p.c.	148,920	200,417
ex 711 flavoring	15 p.c.	20 p.c.	15 p.c.	10 p.c.	—	219,107
ex 711 act. clay	15 p.c.	10 p.c.	15 p.c.	10 p.c.	130,231	267,519
ex 711 oyster shells	15 p.c.	10 p.c.	15 p.c.	10 p.c.	*	272,600
ex 711 mica	15 p.c.	20 p.c.	15 p.c.	12½ p.c.	61,800	280,100
ex 711 benzol	15 p.c.	10 p.c.	15 p.c.	10 p.c.	6,827	31,609
ex 711 vermiculite	15 p.c.	10 p.c.	15 p.c.	10 p.c.	8,454	56,826
ex 711 asbestos	15 p.c.	20 p.c.	15 p.c.	Free	*	*
ex 711 154	15 p.c. Free	16 p.c. Free	15 p.c. Free	Free	69,525	42,798
ex 711 nitrate	15 p.c.	20 p.c.	15 p.c.	Free	*	*
ex 711 445c (i)	{ 15 p.c. 10 p.c.	{ 20 p.c. 25 p.c.	{ 15 p.c. 10 p.c.	Free	*	*
ex 445d <i>et al</i> (ii)	{ Free 15 p.c.	{ 25 p.c. 20 p.c.	{ Free 15 p.c.	10 p.c.		
756	Free	Free	Free	Free	642,792	1,582,112
792	Free	Free	Free	Free	226,007	—
797	Free	10 p.c.	Free	10 p.c.	527,589	1,296,060
802 (a)	Free	Free	Free	Free	210,516	396,055
(b)	Free	Free	Free	Free		
825	Free	15 p.c.	Free	15 p.c.	217,107	282,769
726	15 p.c.	20 p.c.	Free	5 p.c.	—	46,297
833	Free	17½ p.c.	Free	Free	*	*
838	15 p.c.	20 p.c.	1¼ cts. lb.	Free	*	165,575
ex 711						

Imports under Schedule V Items..... \$580,690,222 \$1,483,061,571

Total Imports of all goods..... \$751,055,534 \$1,927,279 402

Percentage of Total Imports covered by Schedule V.... 77 p.c. 77 p.c.

* Not separately recorded.



Co. Doe
Can
B
SESSION 1947-1948

HOUSE OF COMMONS

6/11/7013
-011
STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

Subject-matter of the General Agreement on Tariffs and Trade,
including the Protocol of Provisional Application thereof,
together with the Complementary Agreement of
October 30, 1947, between Canada and the
United States of America.

THURSDAY, APRIL 15, 1948

WITNESS:

Mr. J. J. Deutsch, Director of Economic Relations Division, Department
of Finance.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1948

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, ROOM 429,

THURSDAY, April 15, 1948.

The Standing Committee on Banking and Commerce met this day at 8.30 o'clock p.m. Mr. Hughes Cleaver, Chairman, presided.

(From nine o'clock p.m. until the closing hour of the sitting, Mr. Edouard Rinfret, M.P., acted as Chairman).

Members present: Messrs. Arsenault, Belzile, Benidickson, Black (Cumberland), Blackmore, Cleaver, Coté (St. John's-Iberville-Napierville), Fleming, Fraser, Fulton, Gour (Russell), Harkness, Harris (Danforth), Irvine, Jackman, Jaenicke, Lesage, Macdonnell (Muskoka-Ontario), Marquis, Michaud, Pinard, Rinfret, Ross (Souris), Thatcher, Timmins.

In attendance: Mr. H. B. McKinnon, Chairman of the Tariff Board, Mr. W. J. Callaghan, Commissioner of Tariff; Mr. R. Cousineau of the Tariff Board; Mr. J. J. Deutsch, Director of the Economic Relations Division, Department of Finance; Mr. Hubert R. Kemp, Director of Commercial Relations Division, Mr. A. L. Neale and Mr. G. C. Cowper, of the Department of Trade and Commerce; Mr. A. Richards of the Department of Agriculture.

The Chairman informed the Committee that a Steering Committee had been formed and the First Report of the latter was read by the Clerk. (*See Minutes of Evidence*).

On motion of Mr. Timmins the said First Report was adopted unanimously.

Mr. J. J. Deutsch was called. The witness was examined at length in regard to various aspects of the Final Act of the Second Session of the Preparatory Committee of the United Nations Conference on Trade and Employment, held at Geneva from April 10 to October 30, 1947, and Related Documents. (*Treaty Series, 1947, No. 27*).

It was agreed that Mr. J. J. Deutsch would again appear at a subsequent sitting of the Committee.

At 10.40 o'clock p.m. the Committee adjourned to meet again at the call of the Chair.

ANTOINE CHASSE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

April 15, 1948.

The Standing Committee on Banking and Commerce met this day at 8.30 p.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: Gentlemen, we have a quorum so you will please come to order.

Mr. HARRIS: May I put forward a sentence or two before you commence? I appreciate your kindness and consideration, sir, in sending to my office a copy of the proceedings of your last meeting. I am sorry I was not observant enough to know everything which was occurring in the Canadian House of Commons when the last meeting occurred. Will you accept my apologies and my thanks to you for seeing that a full copy of the proceedings was made available to me. I am very grateful to you.

The CHAIRMAN: It is very kind of you to say so. I am sorry you did not receive your notice in time, but we had quite a succession of untoward events which really brought about what happened.

We had a meeting of the steering committee on April 13th and the clerk will read the report.

The CLERK: Pursuant to the resolution adopted by the committee, at the last meeting held on 18th March, 1948, the following members have been named to act with the chairman as a steering committee:

Messrs. Benidickson, Fraser, Isnor, Jaenicke, Low, Marquis, Rinfret and Timmins.

The steering committee met today—that is on April 13th—at ten o'clock a.m.

Members present: Messrs. Benidickson, Fraser, Isnor, Jaenicke, Marquis, Rinfret, Timmins and Mr. Cleaver.

(Mr. Low, though notified, was not present).

It was agreed that the clerk should advise the Canadian Chamber of Commerce, the Canadian Manufacturers Association, the Canadian Federation of Agriculture and the Horticultural Council of the fact that the Geneva trade agreements are now being considered by this committee and give them an opportunity of appearing to give evidence, particularly in regard to the most-favoured-nations clauses and the British preference clauses.

It was decided that the next two meetings of the committee would be devoted to hearing evidence of Mr. Deutsch.

And the steering committee so recommends.

(Signed) HUGHES CLEAVER,

Chairman.

The CHAIRMAN: Any errors or omissions? If not, will someone move the adoption of the report?

Mr. TIMMINS: Just one thing, it was suggested you or the secretary might communicate with the British commissioner and find out whether or not he desired to have a representative come and tell us something about—

The CHAIRMAN: Yes, and letters have already gone to all indicated including the secretary of the High Commissioner.

Mr. Timmins moves the adoption of the report. Any objections?
Carried.

Mr. FLEMING: You did not deal with the hours of sitting?

The CHAIRMAN: No, we thought it best to leave that to the main committee.

Gentlemen, we have Mr. Deutsch with us again this evening. I know there are many members who have questions they wish to ask him.

J. J. Deutsch, Director, International Relations Division, Department of Finance, recalled:

Mr. LESAGE: Would it be proper, at this time, for Mr. Deutsch to go over the agreement clause by clause?

The CHAIRMAN: Mr. Deutsch has already gone over the agreement in a general way, and he has made the suggestion, having covered in detail the outstanding alterations which were made at Havana, that perhaps time would be saved if the meeting were thrown open to general questions and answers. However, I am in the hands of the committee, of course.

Mr. FLEMING: May the questioning range over the whole field, then, of the agreement? I should like to know how article 5 came to be in the general agreement; what led up to it?

The WITNESS: That clause was among the proposals submitted to the various countries at the conferences right from the start.

By Mr. Fleming:

Q. By the United States? A. By the United States and by the United Kingdom. You will recall at the time of the negotiations in Washington for the British loan, the two countries drew up what were called proposals for a world trade organization. That was the very origin of this whole project. Those proposals had the general blessing of the United Kingdom and the United States.

Following those proposals, the United States prepared a draft based very largely on those proposals. That draft, in turn, was discussed in London in 1946 by 17 countries and again in Geneva last summer. Throughout all those stages a clause of this sort was under discussion and under consideration.

The countries mainly interested in this clause were, of course, the European countries where freedom of transit is a much more important and significant thing than it is on this side of the water because a number of countries in Europe are land-locked and depend on ports which exist in other countries. Therefore, they had a very direct and great interest in rules covering the question of transit. For that reason, such a clause was put into the agreement. Very briefly, that is the background of it.

Q. As I understand it, the driving force behind this proposal was the United States?—A. No, I would not say that it was the driving or even the predominant force. There were many countries interested in it.

Q. Canada had nothing to do with putting that proposal forward?—A. I can say we did not put this proposal forward.

Q. What was the attitude taken by the Canadian delegation throughout on this proposal? Did they welcome it or was this one of the things they came to reluctantly as part of the price to be paid for a general agreement?—A. There is one phase of it which we accepted reluctantly, namely, the undertaking that we must allow freedom of transit to all types of vehicles or all forms or means of transit across our territory. We did not express acceptance of that, but the other countries attached great importance to it and, for the purpose of getting a general agreement, we accepted it.

By Mr. Irvine:

Q. I was just going to ask if you would give us an idea as to what kind of vehicle we were objecting to? I wish to get the nature of the objection?—A. As you know, the Canadian government has, for many years, not permitted the passage of trucks in bond over Canadian territory; that is, trucks of another nation carrying goods in bond between two points in our country. That situation has prevailed for a long time. Under the obligations involved in this clause that prohibition can no longer be maintained because it is contrary to the undertaking requiring freedom of transit for the goods of another country across our territory. This matter has not been of the same significance in this country as it has been in Europe, of course. While we ourselves have our own particular problems, generally speaking the countries of Europe have had much greater interest in the subject because many of them depend upon the ports of other countries and some countries are land-locked entirely. These countries must in many cases pass across the territory of another country, and it is of great value to them to have an undertaking that such access shall be available to members.

By Mr. Fleming:

Q. This is a matter which has been of lively concern to Canadian railway and labour interests, and others. I do not want to prolong the inquiry, but in the last analysis did the United States delegation stand out firmly for acceptance of that proposal?—A. It was not raised solely by the United States.

Q. I am thinking of that particular aspect of it that peculiarly affects Canada in the movement of American traffic across Canadian territory between American points of origin and American points of destination. But where the Canadian delegation finally accepted that thing I wondered if there were pressure from the United States in view of the firm position taken by the United States on it; I mean, by the United States delegation?—A. No, sir. We accepted this finally because of the general desire of the great majority of the countries for a clause of this kind; and, therefore, this was not put in as the express wish of any one country. This was a clause which was generally desired by all countries, and one cannot say that it was brought in at the particular instance of any one country, because, after all this was a meeting of 17 countries and this particular clause had very wide support among all those 17 countries present except ourselves with respect to this particular matter, and it was accepted on the basis that it was the wish of the countries as a whole and not on the instance of any particular country.

Q. Did the Canadian delegation endeavour to get any exception made in favour of Canada in the particular instance we have been discussing?—A. Yes, we did, sir; but unsuccessfully.

Q. Was there any discussion about traffic up to Alaska, was that discussed?—A. That was not discussed.

By Mr. Jaenicke:

Q. On this matter of transportation, this covers just transitory traffic or transportation, does it not?—A. Yes.

Q. I have in mind the case of the Canadian fruit wholesaler going down to the United States in his own truck to get some produce he would buy there. I understand there are certain regulations in the United States where he cannot do that, also some of our own regulations. Is that covered by this treaty?—A. No, that is not covered in this clause, sir.

Q. That is, the United States can prohibit all trucks from going down there to get produce?—A. They could, on other grounds. This clause does not deal with all the issues raised by trucks going to the United States. This clause deals with the movement of United States goods, let us say as an example, across Canadian territory to another point in the United States. It does not cover cases of the kind you mentioned.

Q. Suppose a truck leaves Canada and goes down to Mexico and comes back up again?—A. That would be covered by this clause.

Q. Another thing too; is that in accordance with the regulations or the agreement or the covenants or the conventions of the International Civil Aviation Organization?—A. No, sir, this does not pretend to cover the movement of aeroplanes.

Mr. FRASER: This covers water transportation, does it not?

The WITNESS: It covers water and land, but it is not intended to cover aeroplanes.

Mr. MARQUIS: The only point that you make there is not with respect to merchandise being transported say from the United States to Alaska, but across Canada from one point to another?

The WITNESS: Yes, let us say from Buffalo to Detroit across southern Ontario.

Mr. FLEMING: That is a very big movement now proceeding by rail.

Mr. LESAGE: And that is true with respect to the State of Maine, down near my constituency.

The WITNESS: Yes, the State of Maine.

Mr. LESAGE: That applies to my riding, and to Mr. Martin's too.

The CHAIRMAN: Are there any more questions with respect to Article 5? If not, shall we carry Article 5?

Mr. FLEMING: I suggest, Mr. Chairman, that we do not try to carry articles. Let us have questions and then go back and take them in sequence, if you will. If you are through with that Article 5, I would like to ask questions about Article 11.

By Mr. Fulton:

Q. I wonder if Mr. Deutsch would give us an explanation with regard to that item there "CONTRACTING PARTIES", in block capitals. I noticed that that term was used in there in connection with the International Trade Agreement and I would like an explanation of that when Mr. Deutsch is dealing with Articles 2, 6, 12 and 15. They set forth the regulations covering the terms on which individual nations may make exceptions to the general provisions of this agreement, and generally provide that these exceptions can only be made with the consent of the contracting parties, using that term in the sense of the whole organization it becomes important for us to know who has the power, who votes, and who the executive are, and how the general assembly was set up so we will know when they are discussing exceptions to the rules—. Of course, rules must be made, but who is going to have the say? Those are the points I would like particularly to have covered.

Mr. BLACKMORE: Mr. Chairman, before you go on answering that, there is one question I would like to ask about Article 5.

The CHAIRMAN: If you don't mind, Mr. Blackmore, we will go on with this for now and come back later to Article 5.

The WITNESS: Mr. Fulton, the functions of the "CONTRACTING PARTIES" in block letters is described on page 60, under Article 25. The article is entitled, "joint action by the contracting parties." This is the organization to which you refer, Mr. Fulton?

Mr. FULTON: Yes.

The WITNESS: And the "CONTRACTING PARTIES" in block letters is the body which was given the power of decision wherever the discretion of the organization is involved. In brief, the contracting parties are the representatives of the governments which have agreed to bring this agreement pro-

visionally into force. There are now 9 such countries. I named them the other evening.

Mr. JAENICKE: Which countries are they?

The WITNESS: I will go over them again: The United Kingdom, the United States, Canada, Australia, France, Belgium, Holland, Luxembourg and Cuba.

By Mr. Jaenicke:

Q. They are in force without reservation?—A. They have brought these agreements provisionally into force.

Q. Subject to approval?—A. Subject to approval by the parliament of the various countries. By bringing it into effect provisionally they have merely undertaken to bring it into effect in so far as their existing legislation allows it, and when they ratify they will of course bring it into effect completely.

Q. Can you tell us the difference between Canada and the United States, what we have provisionally put into force and what the United States have provisionally put into force?—A. Is there any difference, did you say?

Q. Yes.—A. By and large, no.

Q. There is in article 7, subsection 3—A. Yes, article 7, subsection 3. That article would require a change in the United States legislation.

Q. Are there any other points like that?—A. There are other points, but I am afraid I am getting off in another direction entirely from Mr. Fulton's question.

Q. All right, we will go into that later. I am satisfied.—A. The representatives of the governments that have brought this agreement into effect provisionally constitute what is called the contracting parties. They act as a group on any matters which are referred to them for decision. The procedure laid down here is very informal. There are no formalities provided for whatever. They will act—

By Mr. Harris:

Q. You say it is informative, but is it uniform as it applies to Canada and as it applies to the United States? I add one sentence to that. I am of the opinion it is not uniform.—A. I simply said that the procedure laid down is very informal.

By Mr. Fulton:

Q. I am sorry to interrupt, but can you elaborate on that because there is no procedure laid down. There is nothing laid down in article 25 to show how they shall arrive at any decision.

The CHAIRMAN: Subsections 3 and 4, each country has just one vote no matter the size of it, and under subsection 4 decisions are by majority vote.

The WITNESS: I was going to say—

By Mr. Fulton:

Q. That does not answer the question. I want to know how it works, how they elect a president, have they got any constitution?—A. That is precisely what I mean, that the whole thing is set out in a manner which envisages a very informal procedure. It was thought that the group of representatives for the contracting parties would behave in the manner of a committee. Naturally they would elect a chairman, and a chairman indeed has been elected. I may say the Canadian representative has been elected chairman.

By Mr. Marquis:

Q. On that point is there any proviso for the adoption of regulations in this agreement?—A. Not specifically set out, but it is assumed they will draw up informal regulations among themselves.

By Mr. Irvine:

Q. How do we appoint our representative?—A. The government appoints them.

Q. Is that provided for anywhere?—A. I assume the Canadian government can appoint representatives to any international body.

Q. Naturally.—A. As the chairman has pointed out each representative has one vote, whether the country be large or small. They all have one vote, and except where otherwise provided decisions are taken by majority vote. That is about all that is said about this. It does specify in this article also that in exceptional circumstances certain obligations may be waived, but in that case there must be a two-thirds majority. It goes on to say that the contracting parties may define certain categories of exceptional circumstances to which other voting requirements shall apply for the waiver of obligations. That is about all there is to it. It is a very informal provision.

Q. Is there to be a head office anywhere and if so where is it to be? How will these men know when to meet together?—A. The meetings are to be called by the chairman and the meetings are to take place at the headquarters of the United Nations.

By Mr. Fulton:

Q. As to meetings being called by the chairman; that must be in some regulation which they have themselves drawn up for guidance of their own meetings?—A. That is right.

Q. For instance, is there to be any governing or watching body, or every time a detail with respect to international trade comes up must there be a meeting of all contracting parties to decide? There is no provision here for any sort of steering committee or anything of that kind, or a subcommittee which might sit and keep watch on international trade, collect complaints, and then when they consider it necessary call a meeting. There seems to be nothing there at all.—A. I might explain that at the moment there are only 9 contracting parties, and it was felt that with a group of countries as small as that that it might be preferable to leave a large measure of informality rather than to lay down a very top heavy organization, which is much more appropriate when you have a large number. When you have a small number why go to all the fuss, bother and expense of an elaborate system when, indeed, in the end they will sit around a table and discuss the thing and decide their difficulties. That was the idea. It is expected that this group will draw up certain regulations for the conduct of their business. They will be sensible, reasonable regulations, and they will draw them up by common agreement around the table as to how they will call meetings, when they will call meetings, and so forth and so on. Those are all things reasonable men can easily determine. In the case of a small group such as this it was felt there was no point in making the thing over-elaborate.

Q. How many nations met at Geneva to consider this in the first place?—A. Seventeen were actually there.

Q. Seventeen actually signed. That is quite a few, and there were more than that at Havana recently. Are we to take it they made no provision and deliberately avoided making any provision for a governing body of their organization? In other words, there is nothing you can point to and say, "that is the International Trade Organization"?—A. In the charter there is a much more elaborate procedure and provision for an organization. I am now talking about the Geneva Agreement. The Havana Charter has very elaborate provisions regarding the nature of the organization, the governing body, the executive board and the staff, and very detailed provisions about rights and privileges of all members, and so on, but that is in the Havana Charter. It is not in the Geneva Agreement. Again another reason why the Geneva thing was not spelled out in great detail or any more elaborate set-up provided for was because once the charter comes into force then the function of the contracting

parties disappears except with respect to one or two things. Everything then goes into the International Trade Organization. Therefore that is one other reason why it was felt there was no need to set up an over-elaborate structure.

Q. I will have to ask a further question. What is the method of transition from this contracting parties organization to the International Trade Organization? When does the latter body assume control over international trade?—

A. When the charter comes into force, and as I explained the other evening when the majority of the nations which were present at Havana have ratified the charter then the International Trade Organization comes into force. As I said that is expected to take place in about a year and a half.

Q. If we go into this thing we go into it on the assumption that eventually the whole thing will be regulated by the International Trade Organization? Is that correct?—A. That is the hope.

Q. In order that we may know what we are getting into should we not ask at this point—and I do ask—whether you can outline the set-up of the I.T.O. as envisaged in the Havana Charter?—A. I am at the disposal of the committee, but I understand the charter is not before the House at the moment. If we get into that it will take us very far afield. I wonder whether that is desired by the committee because actually the charter is not now before the House. I do not know what the intention of the government is in this respect but at some time presumably the charter will be submitted to parliament.

By Mr. Marquis:

Q. Has any secretary been appointed for this organization?—A. No.

Q. Nobody acts as secretary now?—A. As yet they have no staff.

Q. They have no records?—A. They keep records.

Q. Who is keeping the records?—A. The United Nations.

Q. And it is the secretary of the United Nations?—A. The staff is provided by the United Nations.

(Mr. E. Rinfret, acting chairman, now presiding.)

Q. At the last meeting, you referred a number of times to the organization and you also told us it was intended that there would be built up a body of case law to regulate the management of the Geneva Agreement or of the charter?—

A. Both sir.

Q. Both?—A. Both, sir.

Q. I wonder if we can have a little bit of order, Mr. Chairman! Is it pertinent to ask at this time, when you referred the other day to the organization and to the body of case law, whether you were referring to the Geneva Agreement, and if so, can you give us in just a few words what that case law consists of?—A. I was referring sir, to this agreement at that time. Obviously you cannot anticipate, in any document such as this, every aspect or every dispute or difference that might arise. The field of international trade is vast and the instances which might cause difficulty are numerous. Therefore they simply tried to lay down the general principles as precisely as possible. They did not try to elaborate in great detail how any particular concrete case might be handled. Obviously it would be an enormous document if you included everything of that sort. It was anticipated in the course of time that a large body of case law would be developed, based upon decisions made in concrete cases. I might give you some examples. The various practices that might be adopted in state trade might be judged in the light of the principles here laid down. State trading was not ruled out in this document. It was recognized that some state trading would take place and in the case of certain countries there would be a great deal of it. The document says wherever state trading is carried on it must be carried on in a non-discriminatory manner. It must be carried on under commercial principles. Those are broad terms. What exactly are "commercial principles?" What exactly is "non-discrimination in respect to state trading"? Here there may be many concrete cases and if complaints arise they

will be referred to the organization, and the organization will have to make decisions on concrete cases and those decisions of course will become a guide for future cases. In that way you could build up a body of case law.

Q. I just want to ask you whether, under the Geneva Agreement, the contracting parties are listed in block letters?—A. Yes.

By Mr. Jaenicke:

Q. May I ask three or four general questions. I understand, Mr. Deutsch, that we in Canada are adhering provisionally to this treaty without reservation?—A. I am not quite sure what you mean by "without reservation". We apply it provisionally in so far as existing legislation allows.

Q. Is there any existing legislation which does not allow any of these provisions to be enforced provisionally by Canada?—A. There is some legislation, yes.

Q. What is it?—A. We have at the present time a prohibition against the importation of used cars.

Q. And of oleomargarine?—A. Yes, oleomargarine is another item which is prohibited.

Q. And legislation is in force with respect to those items, and those are the only ones you can think of?—A. No, there are many others, but they are of a minor character and it would take some time to go through them. I imagine that in the customs administration there are certain practices which we now follow which would not comply completely with the provisions laid down here, but those practices are not important.

Q. The British preference has ceased to exist?—A. No, it is very much alive, sir.

Q. In what respect?—A. It is in existence at the moment.

Q. Are we not enforcing the Geneva Agreement?—A. Yes, the Geneva Agreement does not require the abolition of the British preference.

Mr. LESAGE: The very first article of the agreement mentions that.

The WITNESS: All that the Geneva Agreement says is that you undertake to negotiate for the reduction of preferences. You undertake to negotiate for the reduction of preference in return for adequate compensation, and you also undertake not to increase preferences or to introduce new ones.

By Mr. Timmins:

Q. We could modify the preference on a commodity under the British preference as long as we modified it downward?—A. That is right sir.

Q. But if, by some means or other, we dropped that particular preference, we could never get it back again?—A. No.

Q. And we could not get another one to replace it?—A. No.

Q. So that in a little while these British preferences might, one by one—with our agreement, go out of existence?—A. That is right, with our agreement. We do not have to reduce any preference unless we get compensation for the reduction and unless, in our opinion, the compensation is adequate.

By Mr. Fulton:

Q. The effect of the exchange of letters which is appended to this document here has made it much more probable that that process will go on, has it not, Mr. Deutsch? A preference is reducible, or you used the words "negotiable at will"?—A. Yes.

Q. It is not regarded as a solemn obligation any more and can be cancelled overnight, is not that the position?—A. Not exactly, Mr. Fulton. Under this agreement the British Commonwealth countries who are signatories and who have agreed to bring the agreement into provisional effect—and three of them have—are required to negotiate their preferences.

Q. No, but I was thinking of the exchange of letters between the government of Canada and the government of the United Kingdom and, in so far as Canada and the United Kingdom are concerned, we can reduce their preferences unilaterally and they can reduce ours unilaterally by virtue of this letter, which changes a mutually binding agreement to unilateral concessions?—A. That depends.

Q. My point is by virtue of that exchange of notes the reduction in our preferences has been facilitated has it not?—A. That depends, Mr. Fulton, on the spirit in which the negotiations are conducted. It is true, under the system which prevailed prior to this exchange of letters, one country which had a bound^d margin could prevent another country from reducing the preference and thereby, because the power of veto exists, the number of instances where it might be negotiated might be reduced. On the other hand, if we are in a series of negotiations in which Canada, New Zealand, the United Kingdom, Australia and other countries are present, where all are trying to reduce trade barriers, it may be the spirit among all of them is in the same direction; the difficulties may be inconsequential as the things consented to may be mutually advantageous. That indeed was the situation at Geneva.

Q. That is in as far as the whole organization is concerned. Yes, I agree with that. I appreciate the process you envisage, but I am thinking of the situation outside the scope of the meeting of all the contracting parties in so far as the actual parties and preferences are concerned. The elimination of preferences surely has been facilitated by the principle embodied in this exchange of letters.—A. That may be. Again I say it depends upon the circumstances, the particular circumstances one envisages. It is true that if a case arises where one country wishes to negotiate with another and a third country which has a preference decides to veto the whole procedure it could do so under the old system; it cannot do so any more.

Q. As it existed before it was regarded as necessary for two parties which wanted to change their preference to get together and negotiate; now that is no longer necessary and we can serve notice on any occasion by virtue of the principle of acceptance which we obtained from the British government. We can now serve notice on them that we are eliminating this, that and the other preference effective at midnight tonight.—A. We could if we wanted to. It is understood, of course, that there will be consultation in cases of that kind.

Mr. TIMMINS: Did you say consultation?

The WITNESS: Yes.

By Mr. Fleming:

Q. Do I understand, Mr. Deutsch, that the agreement embodied in the exchange of notes between Canada and the United Kingdom is an agreement that is in full force and effect now?—A. Yes, it is an agreement between the two governments in force provisionally at the present time.

Q. There is nothing further required in the way of legislative action on the part of the two parliaments to bring this agreement into effect?—A. I am not a constitutional lawyer or legal expert. I do not think I could give you an authoritative answer on that.

Q. I mention the provision in section 14—paragraph 14 of the letter of Mr. Wilgress, dated October 30, at page 104:

14. This letter and your formal confirmation shall constitute an agreement modifying the trade agreement concluded between the governments of Canada and the United Kingdom at Ottawa on the 23rd February, 1937. This agreement shall be applied provisionally during such time as both governments are applying provisionally the general agreement on tariffs and trade and shall enter into force on the date on which that agreement enters into force.

As long as the general agreement is in force provisionally this ancillary agreement between Canada and the United Kingdom is also provisionally enforced?—A. That is right.

Q. I assume we move on to the point where the parliament of Canada formally confirms and ratifies the general agreement; then the general agreement ceases to be in force provisionally?—A. That is right.

Q. What becomes then of the ancillary agreement? There does not seem to be any provision made in 14 adequately to cover that. Is it a case of the tail going with the hide or a separate legislative Act being required?

Mr. MARQUIS: Article 1, page 6.

The WITNESS: As to whether when this agreement is formally ratified if any specific legislation is required with respect to exchange of letters I do not know, sir. Quite frankly, it is a legal and constitutional point which I am not competent to answer.

Mr. MARQUIS: What about article 1, section 2, of page 6?

Mr. FLEMING: Of the general agreement?

Mr. MARQUIS: Yes, of the general agreement. There is a provision referred to in (b), (c) and (d); the annex concerning the agreement with the United States and the United Kingdom and the other ones.

The WITNESS: No. This refers to article 1, subparagraph 2, and paragraphs (a), (b), (c) and (d). They set out in these annexes the preferences which will be allowed to continue and will be accepted as an exception of the most-favoured-nation rule.

Mr. FLEMING: Are they not the agreements?

The WITNESS: No. These do not refer to the exchange of letters.

By Mr. Jaenicke:

Q. The preferential tariff has not been raised, has it?—A. No, sir.

Q. The rates are the same as they were?—A. Except in one instance.

Q. In part 2 of the schedule?—A. In the case of the British preference one item was raised in the Canadian preferential rates.

Q. What is that?—A. That was tin plate. Mr. McKinnon may wish to explain that one.

Mr. McKINNON: It is a detail. Out of the 1,050 items in the Canadian schedule one item is raised in respect of the British preferential tariff.

By Mr. Jaenicke:

Q. Can you explain in what respects the United States has not been able to give us the benefits of the treaty due to the fact it has not yet been dealt with by congress? Is this treaty now before congress?—A. No, it has not yet been formally placed before congress. They had hoped to place it before congress before now, but so many other more urgent issues have come up in the last three or four or five months, as you know, and their agenda got too crowded. Therefore they decided not to put it before congress at this session; but they do hope to put it before congress at the next session.

Q. Can you give us some examples why the treaty is not being enforced in respect of used cars and oleomargarine? What about the exception in the United States? Can you give us some examples?—A. Yes, I believe you just referred to one. The most important part of this agreement which the United States is not now applying has to do with customs administration. When the United States brings this agreement fully into effect it will have to make a number of quite important changes in its method of customs administration. Among those items which will require to be changed is the one you refer to, namely, that they could no longer assess duty on a domestic sales or excise tax, which they now do. In other words, our present 8 per cent sales tax is included

in the value upon which duty is assessed when those goods are exported to the United States, by the United States authorities, or any other excise tax we might have in effect.

Now, that would no longer be permitted when this agreement is ratified. That is one case. There are other cases I might mention: the system of valuation which the United States uses in assessing value for duty would have to be changed.

By Mr. Harris:

Q. They will have duty assessed on the retail value of the same article being sold in the United States?—A. Under the Geneva agreement?

Q. No; at present.—A. At present the general principle, as I understand it, is they assess duty on the value at which the majority of the sales of that particular article are made. In many cases that may be the retail sales.

Q. It may be in the retail market, whereas on the other hand the same goods coming into Canada carry a duty on the wholesale price crossing the border with the natural result that we have \$50 worth of a certain commodity coming in; \$100 retail worth come into Canada duty assessed on the wholesale price, namely, \$50, and the rate is 20 per cent; the duty paid will be \$10: whereas the same volume of the same commodity going to the United States worth \$100 will be assessed on the retail price, namely, \$100, and the amount of duty going to the United States is \$20. It costs \$20 to go into the United States and it only costs \$10 to come into Canada.—A. Situations like that do exist.

Q. And you hope when you get this treaty organized and signed that that discrimination regarding trade between Canada and the United States will be more or less corrected and you hope to have the discrimination eliminated?—A. That is right, sir.

By Mr. Timmins:

Q. What hold have we got over the United States to alter its domestic taxing arrangements so as to get over that situation and a good many others like it?—A. Unless the United States brings its practice into conformity with the requirements of this agreement, it cannot live up to the agreement.

Q. What is the standard in the meantime? There is a Canadian standard, a French standard and a United Kingdom standard. What is the standard we are going to guide ourselves by?—A. The standard as laid down in this agreement, and all countries must abide by this standard.

Q. Which article covers that?—A. The articles having to do with customs administration begin with Article 5, freedom of transport; Article 6, anti-dumping and countervailing duties; Article 7, valuation for customs purposes. The rules which have to be observed are laid down in these articles. Article 8 deals with formalities connected with importation and exportation and Article 9 with marks of origin; Article 10, publication and administration of trade regulations. Those are the articles which lay down the rules which have to be observed in the administration of customs.

By Mr. Fraser:

Q. When you used the words, "commercial practices", you were referring to these articles, here?—A. Yes.

Q. You were referring to them?—A. Yes, those are among the most important questions concerning commercial practices.

Q. You used these words before; you said everything would have to be carried out according to commercial practices, but there are different ideas between the different countries?—A. I was referring, then, to examples of state trading which does not relate to these matters. I was saying that state trading had to be carried out on commercial considerations in accordance with the commercial practices, but that has not got exclusive reference to these matters.

Q. There would be different commercial practices in practically every country, and every country would have different ideas with the exception of the United States and Canada and perhaps the British Isles?—A. So far as customs administration is concerned, whatever their practices are, they would have to meet the requirements of these rules.

By Mr. Marquis:

Q. This agreement is in force in the United States?—A. Only provisionally.

Q. Is the same true of Canada?—A. In Canada, also.

Q. The United States is making certain reservations?—A. No.

Q. Could you explain the difference?—A. The difference is this; as I said before, the meaning of provincial application is that you undertake to bring into force those provisions in so far as your existing legislation allows. This means you will do everything your own legislation permits you to do but you do not undertake to do any more until you formally ratify the agreement. When you have done that, you must abide by all the provisions of the agreement.

Q. The point I am trying to understand is this; Mr. Harris said a few minutes ago the United States charged more under its customs practice than Canada charges?—A. Yes.

Q. The United States applies its tariff on the retail price, whereas Canada applies the tariff on the wholesale price. Could we change that and apply it on the retail price, too?—A. Well, no.

By Mr. Timmins:

Q. The fact is the United States has not changed its practice?—A. No, it has not.

Q. And it does not intend to change it?—A. Not until ratification of the agreement.

By Mr. Lesage:

Q. What is the article in the agreement?—A. I want to answer this gentleman's question. The United States, in signing this for provisional application did not undertake to do anything which its legislation does not now permit. In the case of customs valuation, its legislation does not now permit it to act in accordance with these rules. But when the United States formally ratifies this agreement, then it will have to change its legislation so it can abide by these rules. Otherwise, it cannot live up to this agreement.

By Mr. Marquis:

Q. As a supplementary question, did Canada change its rules, or do we apply the tariff as we did before?—A. We are continuing, at the present time, to conduct our affairs as we did before.

By Mr. Fraser:

Q. You say, when the United States signs the agreement; that would be when Congress ratifies it?—A. Yes.

Q. Supposing Canada, at that time, has not ratified it. The United States would be following the agreement, anyway, is that right, and we might not be following it? Perhaps there might be only one other country following the agreement?—A. I think what is actually going to happen here, sir, is this; most countries will not formally ratify this agreement until the United States has done so. This does not mean that countries will not put it through their parliament because the act of approving by parliament is not formal ratification. There has to be a formal act by the government, in effect, saying "Yes, we will formally ratify it." What I think will happen in most places is that they will seek approval of their parliaments and then delay formal ratification to see

what the United States does. When the United States has acted I think everyone will put in their formal ratifications. That is what is likely to take place.

Q. At that time, in the United Nations, is it likely all those countries will get together and put this agreement into force at the same time?—A. I think what will likely happen is that this agreement will come into final force simultaneously among all the countries. There may be some difference in the times at which parliaments approve it, but the formal ratification is likely to take place at the same time.

Q. There is no agreement on that now?—A. No, it is just an understanding.

Q. These understandings, without any agreement—I do not see how they work.

By Mr. Irvine:

Q. I think my question has been answered in the last statement. I wanted to know whether, when the agreement had been ratified, these terms came into operation forthwith on the part of the nation ratifying it. However, you have just pointed out that this will be done by all the nations concerned at the same time?—A. It is expected it will be done simultaneously.

By Mr. Belzile:

Q. Would it be correct to say, sir, that parliament will ratify this agreement by order in council later on?—A. I think, possibly, if parliament wishes to approve this, then, so far as parliament is concerned legislation may be provided, but the formal act of ratification would not have to take place at that time. The government could submit formal ratification and set whatever date it wishes to do so. That could be done by order in council.

By Mr. Fleming:

Q. What is before parliament now—you speak about ratification as though it had the effect of a statute. What parliament is being asked to do here is to ratify and confirm the agreement. Now, when the ratifications of all the governments of the countries are deposited, then the agreement will come into effect in Canada. Do I understand, then, that the interpretation you are putting on the resolution of parliament is that that resolution has the effect of over-riding and amending any statute of the parliament of Canada which runs contrary to the text of this agreement?—A. I did not intend to leave that impression, Mr. Fleming. I think as far as I understand it the procedure will be this, amendments will be submitted to parliament where legislation requires to be changed to secure compliance with this agreement; I understand the government will submit amendments to the Customs Act, for instance, specific amendments to legislation required by this agreement.

Q. To bring the Canadian statute then into—A. Into line with the terms of the general agreement.

Q. Yes.—A. That is right.

Q. That is a rather important definition.—A. That is so. I did not intend to leave the other impression.

By Mr. Lesage:

Q. Will you point out what sections would force the United States to change its legislation to conform to the provisions of the agreement?—A. Well, the United States cannot live up to this agreement if it does not abide by the provisions of the agreement.

Q. Yes, but what is the provision?—A. I can give you the exact provision in just a moment—valuation for customs purposes, take that article.

Q. Yes, all right. I have read it but I do not find that it would have the effect of changing values for customs purposes. On the contrary, it uses actual values.—A. Did you read the first paragraph?

Q. It is governed by the legislation of the importing country?—A. That is right.

Q. If it is the legislation of the importing country which determines that—
A. If you read Article 7, it says that the contracting parties recognize the validity of the general principles of valuation set forth in the following paragraph of this article, and they undertake to give effect to such principles, in respect to all products subject to duties or other charges or restrictions on importations and exportations based upon or regulated in any manner by value, at the earliest practicable date.

Mr. FLEMING: Page 80, qualifies that again. The addendum on page 80, interprets actual value of sales, and at the earliest practical date. The actual value is dealt with in the second paragraph on page 80, with a series of interpretations.

The WITNESS: Yes.

Mr. LESAGE: There is nothing there about wholesale or retail?

Mr. FLEMING: No.

The WITNESS: The principles are then laid down in the subsequent paragraphs, if you read it; the principles which have to be observed.

Mr. LESAGE: What would be the sections which would require the Canadian parliament to amend its legislation in regard to that?

The WITNESS: That gets into another field. One of the fundamental provisions of this agreement is that you may not, except as otherwise provided—the exceptions are most important—you may not impose quantitative restrictions on imports or exports of any goods except where otherwise provided. There are a number of exceptions.

Mr. PINARD: But you can make your own choice as to commodity.

The WITNESS: One of the exceptions to this general rule is a situation which arises when a country has a balance of payments difficulty, then there is an exception to the rule against quantitative restrictions; and particularly the control of imports by means of quantitative restrictions. That is one of the exceptions.

Mr. LESAGE: Suppose it was going to ruin one of our basic industries, that would be an exceptional item, would it not?

The WITNESS: Ruin, what?

Mr. LESAGE: Ruin a basic industry.

The WITNESS: You are now referring to?

Mr. LESAGE: Section 19, I think.

The WITNESS: You are referring to the emergency clause?

Mr. LESAGE: Yes.

The WITNESS: There is a clause in this agreement that says, if as the result of unforeseen development imports come into a country in a volume which bring serious injury to a domestic industry a concession made in this agreement may be temporarily suspended.

By Mr. Fulton:

Q. With the consent of the contracting parties?—A. Not in the first instance.

Q. But you have to submit it?—A. You have to if you can, submit it before you act.

Q. Yes.—A. But in the case of great emergency you may act without prior submission, but you must afterwards tell the organization as quickly as possible what you have done, and you have got to give the other party an opportunity to discuss it.

Q. Is not the effect of that merely to place—apparently it must be submitted—merely to place in the hands of contracting parties the determination of legislation within your own country in so far as that legislation affects payments?—A. In other words, if we raise tariffs because of the importation of goods in a volume which causes serious injury it may be held up by the organization. That is your point, they may say you are not justified?

Mr. FULTON: Yes, they may review our action.

Mr. IRVINE: We have the same power with respect to other nations, therefore we have more power than we had before.

Mr. FULTON: I am not asking if the effect is not what I say, placing the power of review of Canadian legislation into the hands of contracting parties?

The WITNESS: Well, Mr. Fulton, whenever you enter into a tariff agreement such as we have entered into in the past with the United States and Great Britain, the essence of such an agreement is that you undertake to bind your tariffs, and while that agreement is in effect you cannot raise those bound tariffs without breaking the agreement or without the consent of the other party. Now, that has been the situation. There is nothing new in this.

Mr. FULTON: But now we are going a great deal further than tariffs, a great deal further. That is one matter on which we are agreed. The question of tariff and tariff legislation is the same as it has always been, to some extent discussed between the countries before they make any changes. Now, you see in matters of the economic development of Canada, if we wish to adopt a separate course which may influence our economic development, other countries have the power of review. Is not that the case, that the power of review is placed in the hands of the contracting parties?

The WITNESS: Yes.

Mr. FULTON: On legislation outside of tariffs?

The WITNESS: Yes, that is true. But I must add at this point in the case of bound tariffs, under that type of agreement you do not have the power to change without the consent of the other party. That has always been the basis of trade agreements. This agreement goes further than that, it covers more than tariff, that is true also. But the trade agreements of recent years very frequently also include provisions about the use of quantitative restrictions, and these agreements also state that certain things should not be done with respect to quantitative restrictions without the consent of the other party. And indeed in our own trade agreement with the United States in 1938, there were provisions regarding the use of quantitative restrictions by either country. We did not have absolute freedom even in the old agreements to do as we liked about quantitative restrictions. So in that sense there is nothing new here. In fact the leeway allowed, and the degree of freedom allowed in this agreement because of the exceptions which are in here are even greater than those that were in effect under some of the old treaties.

By Mr. Irvine:

Q. Is it not also true to say that if Canada should be subject to sanctions of other countries it is also true that they must be subject to Canadian sanctions if they were changed?—A. That is right. It is a free country, as you say, sir. This is a two-way street, and if you give up a certain amount of freedom, for example, you give it up because you think that the limitation of the freedom placed on others is worth it to you; otherwise, you would not be doing it.

Mr. PINARD: A question of good faith and that is all.

By Mr. Jaenicke:

Q. I understand the United States have quantitative or quota restrictions on grain and cattle going into the United States from Canada. Will they be

removed by this treaty?—A. The quota restrictions in the case of cattle are what are called tariff quotas. They are not absolute quotas. The situation in the case of cattle is that cattle up to a certain number are allowed in at one rate. . .

Q. At what?—A. At one rate, and over that quantity they are allowed in at a different rate. Within the quota the rate is lower than the rate above the quota, but it is not an absolute restriction. It is really a system whereby two tariffs are applied, one up to a certain quantity and then a higher tariff over that quantity. It is not a quota in the absolute sense. There are a fair number of those in the United States.

By Mr. Michaud:

Q. We have it on page 9?—A. Yes, that is right. You find it in the case of cattle, seed potatoes, table potatoes, milk and cream, etc.

By Mr. Fulton:

Q. Is that principle allowed?—A. That is allowed because it is not an absolute quota. It is what is called a tariff quota.

The ACTING CHAIRMAN: Gentlemen, I think we are quite some distance from article 5. I think we should revert to it and give the floor to Mr. Blackmore. I think you have a couple of questions?

Mr. BLACKMORE: I thought I would wait until the others had asked all their questions on this item.

By Mr. MacDonnell:

Q. I want to ask one question with regard to the position of the United States under the agreement now because as Mr. Deutsch has pointed out the United States is so overwhelmingly important. You have made it very clear, Mr. Deutsch, that so far as the administrative changes which are necessary to our full enjoyment of any benefits in the United States it requires legislation so far as they are concerned. Am I right in thinking under previous legislation the president by executive act could reduce an existing tariff 50 per cent? What I want to know is, leaving the administrative parts out—and I understand they can only act through further congressional legislation—when do the benefits, the actual tariff reductions come into effect?—A. They went into effect on the 1st of January of this year.

Q. That is what I thought. I wanted to make that perfectly clear. In other words, while it is only a partial benefit so far as the United States is concerned there is already something which has happened to indicate they are not just fooling with this agreement?—A. I am very glad you brought that point out. I should have brought it out myself earlier, that the actual tariff reductions that were negotiated were put into effect on January 1st.

Mr. HARRIS: Tentatively.

The WITNESS: Because the executive in the United States under the Reciprocal Trade Agreement Act has the power to bring such a reduction into effect up to 50 per cent of the existing tariff. Under that power they have brought. . .

By Mr. Harris:

Q. That is provisional?—A. That is provisional. They may withdraw them on 60 days notice, and any country may. We may also. That is a part of the meaning of provisional application.

By Mr. MacDonnell:

Q. At the present time their tariffs are down?—A. That is right.

Q. That is in effect?—A. That is in effect.

Q. It is not something that is pie in the sky?—A. That is right. Those tariff reductions are actually in effect to-day.

By Mr. Jackman:

Q. Is it understood eventually there will be uniformity even on matters of detail in regard to customs and administrative practices between the various signers of this treaty?—A. There will be a much greater uniformity in customs practices than ever existed before.

Q. Not exact uniformity?—A. Not exact, because all this sets down is a minimum standard, let us say. They must reach this standard, but there is nothing to prevent them from having even more liberal standards if they want to. Some countries will have variations that are more liberal perhaps than is required here, but they must at least reach that minimum standard laid down in these rules.

Q. What would happen to restrictive practices like the hoof and mouth disease restriction and some of those infectious diseases that are supposed to be attached to vegetables?—A. There is a provision in the agreement that permits you to pass regulations regarding the enforcement of laws against diseases and so forth. In other words, if you want to keep out diseased cattle or diseased animals or diseased vegetables you can do so under this agreement.

Q. Suppose you had a clause like the hoof and mouth provision which is applied so very generally that it stops all your trade in that commodity?—A. In other words, they may find one cow somewhere that is suspected to be diseased, and on that ground embargo all cattle from the country.

Q. Did we not have a case like that in connection with Canadian cattle we exported to Great Britain some years ago?—A. We did.

By Mr. Timmins:

Q. We had the same thing with respect to milk going to the United States?—A. Yes.

Q. They wanted to send their inspectors into Canada to inspect cattle here?—A. Yes. There is a provision to enable countries to control trade in what they regard as diseased products so as to protect the health of their own animals and vegetables but, of course, that can be abused as you suggest. It can be abused, and if countries wish to do so presumably they can try it.

Q. Is there an appeal?—A. There is an appeal then to the organization, and the provision which permits that sort of thing also says these devices must not be used as an indirect method of protection.

By Mr. Benidickson:

Q. In a federal system does a government at the level of a state or a province come in any way under the direction of the governing body?—A. No.

Q. New York state or anybody else could have a local law as to disease that might be very effective, and could in no way be stopped by this organization?—A. The federal government in signing a document of this kind only undertakes things with respect to the fields in which it has competence. It cannot make undertakings for a province and that applies to all federal countries.

By Mr. Fleming:

Q. I wonder if I can go back to article 11, particularly the first section, "no prohibitions or restrictions other than duties, taxes or other charges" and so on, "shall be instituted or maintained by any contracting party." As I understand it that first section in effect prohibits embargos.—A. That is right.

Q. For any country to justify an embargo it must bring itself clearly within one of the exceptions?—A. Exceptions.

Q. Exceptions provided. You mentioned two examples. One was margarine and the other was used cars where Canada at the present time is applying an embargo. There are others, are there not, used aeroplanes?—A. I believe used aeroplanes, also.

Q. Are there any others or is that the complete group?—A. There are other prohibitions but they are usually on moral or health grounds, and because of that are not brought into question in this agreement.

Q. But commodities in the ordinary cases—A. That is about the list.

Q. That is the complete group?—A. That is apart from our present balance of payment—

Q. Yes.—A. Apart from our balance of payment restrictions, because we have many prohibitions at the present time but they are for balance of payment reasons.

Q. What I am concerned about was touched on earlier but I think it has not been cleared up yet, the effect of the agreement today on its provisional basis with respect to these three embargoes. Forgetting for the moment the application of the balance of payment article what is the status of these embargoes today on those three specific commodities?—A. They are in force.

Q. Which is in force, the embargo or the general agreement?—A. The embargo.

Q. The embargo is still in force?—A. Yes, and since these embargoes are embodied in our legislation we are not required to remove them because it would be inconsistent with our existing legislation. All we have done by signing provisionally is to do everything we can within our existing legislation.

Q. Do I interpret that correctly when I suggest that in view of what you have said there is no obligation on Canada under this agreement either legally or morally to remove these embargoes?—A. Not as long as it is provisionally in effect. When it is brought finally into effect then we must bring these embargoes into line with the provisions of this agreement.

Q. How?—A. By changing the legislation.

Q. Then that would mean that the embargo would have to go?—A. Yes.

Q. We are bound by this agreement?—A. If parliament approves it.

Q. When ratification of the general agreement comes about we are undertaking a legal obligation here to remove the embargo on margarine, used cars and used aeroplanes?—A. As far as this agreement is concerned, yes.

Mr. MARQUIS: There is no exception to that?

The WITNESS: No, but I might go on and explain, sir, that in the case of used cars and oleomargarine, those items were not bound in our tariffs. The items were not bound in our tariffs and therefore the government is perfectly free to put any tariffs which it wishes on oleomargarine and used cars.

Mr. MARQUIS: \$3 a pound?

The WITNESS: Anything you would like.

By Mr. Timmins:

Q. That freedom applies to anything not contained in these lists?—A. Yes.

Q. If we ran into difficulty we could stick a tariff on and protect ourselves?—A. Yes, on unbound items.

Q. Take plywood, for instance. Is that free, or is it not?—A. I do not know whether that has been bound, but Mr. MacKinnon could tell you that.

Mr. MACKINNON: You mean plywood coming this way?

Mr. TIMMINS: Plywood going to the United States.

Mr. MACKINNON: We obtained a reduction on cedar plywood and we obtained a very favourable low rate bound on other wood.

The WITNESS: If the rates are bound by the United States they cannot raise them in future.

By Mr. Timmins:

Q. There must be some reason why we put the embargo on those articles coming in from the United States and, supposing we got into the same sort of a

jam again, could we not re-impose the embargos?—A. We could not re-impose the embargos but we could put on tariffs.

Q. If we do run into some difficulty are our hands not tied forever and ever?—A. In the first place the agreements only last for three years. In the second place there is an emergency clause in the agreement which states if, as a result of this agreement, the goods are coming in in such great volume as to injure our producers seriously we may, if we desire, have recourse to that clause and raise the tariff. Then of course we would be open to complaints from others and we might be asked to stop.

By Mr. Pinard:

Q. Is it not subject to approval or must there be complaints?—A. It has to be a complaint.

Q. And if there is no complaint?—A. It is all right.

Q. The practice continues?—A. Even if there is a complaint we may still continue to make the exception but the other country may equally take concessions away from us if the organization approves. That is the procedure that will be followed. The organization cannot tell you to stop, it can only say to others that the organization considers the complaint justified and it gives the other countries a right to take concessions away from the country complained of.

Mr. LESAGE: As sanctions?

The WITNESS: As sanctions.

By Mr. Fleming:

Q. What you say in effect is, in the case of any commodity on which the tariff has not been bound, in removing the embargo later—following ratification of the agreement—there is no offence against the spirit or the letter of this agreement if Canada imposes an absolutely prohibitive tariff to take the place of the removal of the embargo?—A. There is nothing in the agreement that says you cannot do that.

Q. Would you say it offends the spirit of the agreement?—A. Well even there, strictly speaking, I do not think it is against the spirit of the agreement to put on a prohibitive tariff because you have given notice to the other countries in not binding that rate that you have perfect freedom to put on prohibitive rates. If the other countries are tremendously interested in that item they had the right to press for a binding rate. They would have to give concessions but it is a matter for negotiation. If a country refuses to bind a tariff and thereby has given notice to everybody, that country has freedom of action with respect to that item.

Q. You made an observation about oleomargarine and used cars. What would you say about the third item, used aeroplanes? Is that item bound?—A. No. The government may put on any tariff it wishes.

Mr. MICHAUD: Are there many items listed in this schedule which are not included or bound?

The WITNESS: By far the majority of them are included in that schedule but I believe there are some 800 which are not bound.

Mr. MACKINNON: There are 800 or 900 which are not bound.

Mr. BELZILE: How many are bound?

Mr. MACKINNON: There are between 1,800 and 2,000 items and sub-items in the Canadian tariff. Of those 1,800 items 1,050 are included in this schedule. Of the 1,050 600 represent a reduction, and 400 are binding on the present rates. Therefore, with respect to the 800 or 900 items not bound in this schedule, the Canadian parliament is free to do as it desires.

By Mr. Timmins:

Q. Is pulpwood included there?

Mr. MACKINNON: Yes, it is bound there.

Mr. TIMMINS: Supposing, by some quirk the United States could get pulp-wood from some place other than Canada, they could put up a tariff so that pulp could not go from Canada into the United States.

The WITNESS: No, that is bound free.

Mr. TIMMINS: Bound free?

The WITNESS: Yes.

Mr. MACKINNON: Bound against increase?

Mr. TIMMINS: I see.

By Mr. Fulton:

Q. Mr. Deutsch, what, in your view, is the effect on the principle embodied in the food contracts between Canada and Great Britain at the present time? What is the effect of this agreement on those arrangements?—A. This agreement has no effect on those contracts, partly because they were drawn up before this agreement came into force and partly because they can only be affected through complaint. This agreement does not prevent bulk sales and state trading.

Q. What about the most favoured-nation treatment provision?—A. The agreement says you must give non-discriminatory treatment and you must act on commercial considerations. If anybody complained about our contracts we would have it demonstrate that they were non-discriminatory and that they were based upon commercial considerations. Presumably we would so argue and if successful we would come within these rules.

Q. May I put one case to you? It has been suggested that one reason why Canada has imposed an embargo against the export of cattle to the United States—that is an embargo by the Canadian government—is to keep a meat supply in Canada to meet the British food contracts. Not going into the merits of whether that is true, would it be a satisfactory answer under the agreement?—A. It would not be a satisfactory plea under this agreement. In other words you cannot justify your embargo under this agreement by the fact that you had made a contract with someone else.

Q. That would be a breach of the most favoured-nations provisions?—A. Not necessarily. You must get the distinction there, Mr. Fulton. An embargo may be justified on other grounds.

Q. Yes, but fundamentally it is a breach of the most favoured nation treatment to supply all your produce to one country and refuse to supply it to another?—A. It depends entirely on whether or not you are following commercial considerations. You must give equal treatment to any country that proposes to give you the same bargain.

Mr. LESAGE: Under state trading?

The WITNESS: Yes, and under bulk sales. In other words if you are going to make a proposition as a state traded to sell a certain quantity of goods, you must make that offer available to the other countries and be prepared to give equal treatment if they will give you a similar bargain. That is what is meant by commercial considerations.

Mr. PINARD: How can it be determined?

The WITNESS: That is one of the matters to which I referred earlier. There would have to be built up a system of case law on the basis of concrete cases. You could not enter into bulk contracts if they were based on purely political grounds or on grounds of say special favours.

Mr. FULTON: Or sentiment.

The WITNESS: Or sentiment, or what have you. If they are made on that basis only and are not commercial you could be subject to complaint by others.

By Mr. Fulton:

Q. At the discussion at Geneva and as far as you knew at Havana were there any criticisms implied or expressed of the Canadian and British food agreement?—A. No.

Q. You do not anticipate any complaints?—A. No. There wasn't one question raised about any of these food contracts.

Q. Is it so because they antedate the agreement?—A. No, I do not think so, not entirely; they were pretty generally accepted as agreements that come within the provisions of this agreement.

Mr. LEGER: Not the wheat?

The WITNESS: Yes.

By Mr. Fulton:

Q. Do ye give the same price as we do to the United Kingdom? We have to do it, do we?

Mr. LESAGE: There is not one price. There are other conditions.

The WITNESS: That is true. When I spoke of commercial considerations it was recognized that there is more than price. It embraces such things as the length of the contract, and the quantities involved. These are all commercial consideration. It is true a country may quite properly sell at a lower price if it gets a contract for a long period of time.

These are considerations which ordinary private business employs every day, and in that sense these things are commercial considerations, and when a country complains about the action of another country it must make its complaint taking into account all those considerations and not merely price. In examining our food contracts other countries would have to take regard of the full terms of those contracts—the period and the quantities and everything else; and only if they can rest their case on the complete examination of all the terms can the matter be considered.

By Mr. Fulton:

Q. Would you give us some of the arguments which Canada will be allowed or which will be entertained as justifying an embargo against the export of cattle to the United States?—A. Well, first of all there are clauses in the agreement which permit certain exceptional measures during the transitional period after the war. It is recognized at the present time when we have so many wartime controls still partially in effect or in the process of liquidation that there are many things that cannot be suddenly changed and you must allow a period of time for the countries to work out of those circumstances. Many of those measures are permitted a country during a certain period of time to liquidate those wartime price controls or to carry out arrangements for the equitable distribution of supplies where those supplies are scarce. That period is allowed until about 1951. Between now and 1951 many exceptions are allowed to take care of those particular post-war difficulties. It is under those general rules that such a thing as a meat embargo can be justified. After that period is over this argument no longer applies.

Mr. MARQUIS: When the agreement will be definitely ratified, if I understand rightly, this agreement will hamper Canada in selling all her wheat to one country if she likes.

The WITNESS: No. Canada could still sell, if she wanted to, all her wheat to one country provided it was done on commercial considerations. In other words, taking into account the stability of the market, the period for which the contract is entered into, the conditions of the contract, the price and so on. If it can be justified on commercial grounds there is nothing to stop Canada from selling all her wheat to one country.

Mr. FLEMING: Does that exclude sentimental grounds?

The WITNESS: You could get into trouble on the ground of commercial considerations. I think the element of good-will will be included, whether that goes very far in the direction of sentiment I do not know. Again you come to the question of the necessity to build up case law on these matters and you can only build it after the examination of concrete cases.

By Mr. Timmins:

Q. Suppose France says that she would like to make the same deal?—A. You would have to consider France's proposal.

Q. If France was not of the same economic stability as Great Britain would that be a factor in determining that we should sell our wheat to one and not to the other?—A. Yes, because the selling country has naturally a business interest in the stability of the market. If it felt that if it took a contract with France that the factor of risk was greater in the case of France than the United Kingdom that would be a valid consideration.

Mr. FULTON: You would have to prove it. You could not say that is one of the considerations.

The WITNESS: There you get again into the difficult problem of case law. You may have to prove it if you are challenged.

By Mr. Gour:

Q. Suppose one country makes a complaint? It is not satisfied with the regulations we pass for selling wheat or cattle or oleomargarine. They do not agree with our practice and they raise a complaint against us and suppose the majority of council says that Canada is wrong and France is one of those countries, they say they will not give us the same privilege as the others.—A. That is right.

Q. Therefore, it is the same today as it always was. If France or any other country is not satisfied with the way we are dealing and say we are not giving them fair play, they are in the same position to say to Canada that we will not deal with you, and that would be the end of it as far as the rest of the countries are concerned and it would be a matter for the country that complains against us. Now, suppose we do something and a country complains against us at the assembly when everything will be signed and ratified by all the governments. Twenty or fifty nations are there and suppose someone puts in a complaint and two-thirds of them say to France, you are right to put in a complaint against Canada because she sells all her wheat to Britain. If it is only done by the country which complains they could not take away much of the privilege of the understanding between the nations. Therefore I do believe it would be the same as it is now. If we do something against a country and that country is not satisfied with our action it is not ready to give us a preference. If France is not satisfied on the matter of wheat she will say, "All right, you do not ship us wheat, you do not deal with us equitably and we will not give you a preference on something else." If it is the same as it always was I am in favour of it. It is a good thing, and I can go now.

By Mr. Fleming:

Q. Do you mean to say that the sanction can be applied only by the country specifically mentioned and that the other countries cannot apply any form of sanction even though they are satisfied that the one country in Mr. Gour's case, Canada, had violated the agreement?—A. Only the countries, generally speaking, injured can withdraw concessions from the country that is complained about. There are certain types of infringement of these agreements that might affect all the countries. If we did something that affected the rights and privileges of all the rest of the countries presumably the rest of the countries could take sanctions against us because they are all affected.

Q. They could not do it on the basis of having participated in effect in the judgment against Canada?—A. No.

Mr. MARQUIS: It is stated in the agreement.

The WITNESS: Yes. These sanctions are not imposed from above, so to speak; they are indirect sanctions. That is, other countries may withdraw concessions that they made to the member country that is complained about. That is all they can do.

By Mr. Fleming:

Q. Perhaps we should not talk about sanctions at all. It suggests economic sanctions in which all the members would participate. What you say, in effect, is the country which has been aggrieved by the action of Canada would have the right, in retaliation, to withdraw concessions from Canada which that country had extended to Canada by the agreement?—A. That is right.

By Mr. Marquis:

Q. The agreement will stand in so far as the other countries are concerned?—A. Yes, and the rest of the agreement will stand as between the two countries.

Q. You can change the tariff on a few items by way of sanction?—A. Yes, so the word, "sanction" is not quite the proper term.

Mr. FLEMING: We had better avoid that word. It is a misleading term.

The WITNESS: It is a misleading term.

By Mr. Pinard:

Q. In referring to the balance of payments, Article 12, is there any country which signed the protocol which could not, at the present time, take advantage of that?—A. Yes, a very important country.

Q. Any country other than the United States?—A. Perhaps Cuba.

Q. Does not take advantage of it?—A. And could not, under the present circumstances. Of course, the important and significant thing here is that the United States is unable to take advantage of that clause. Therefore, when they undertake to not impose quantitative restrictions, it means that they cannot do it unless they can have access to this balance of payments clause to which, obviously, they have no cause to appeal.

By Mr. Timmins:

Q. The United States would probably be the only country in that position?—A. Yes, it may well be. At the present time there are other countries in that position. Switzerland and Cuba are cases in point.

By Mr. Fulton:

Q. This is a theoretical question, but I should like the benefit of your view. Do you consider, as a result of the application of this principal of non-discrimination, coupled with the fact all countries at Geneva have negotiated considerable tariff reductions, there is a danger that you may now have frozen international trade in its present channels for some time and that it is going to be much more difficult to negotiate further tariff concessions?—A. Mr. Fulton, it is the opposite that was expected of this. It was felt that with this agreement and the organization which is laid down here, as well as the obligations which are undertaken the likelihood of further tariff negotiations would be increased.

Q. I agree there is an organization for it, but my point is; if I am in the position whereby if I give a concession to you I have to give it to 17 other people as well, I am going to be less likely to give the concession to you. Then, you get that multiplied by 17 nations all in the same position—I do not know how many combinations or permutations of that you could have, but I am wondering whether there is not the danger that we have really put a rather effective barrier in the way of further substantial tariff reductions. If I were free to negotiate

with one or two or three countries as I wished, I would probably find an agreement would be much easier to make?—A. That is true if you look at each country in isolation, but when you consider the position of all countries together, that is not so true. Even before this agreement came into force the most favoured nation rule was very widely accepted. Indeed, the whole process of the American tariff agreements was based on the most favoured nation rule. In Canada, the same policy was followed with the exception of the British preference which applied only to the British Commonwealth countries. We adhered to the most favoured nation rule.

Q. For how long would you say that had been the case?—A. It has been the case certainly since the first world war. But, of course, in the nineteenth century it was very widely the case. So in practice even before this agreement you would hesitate a long time before you entered into an agreement outside of the most favoured nations rule, because you were then open to retaliation from practically the rest of the world and you would hesitate a long time before risking that retaliation.

Q. Quite so, and largely because there were many individual trade deals, put it that way, trade deals negotiated on the basis of individual countries which grew up in the period between 1930 and 1935. All countries interested in a series of trade contacts carried them on on an individual basis. They may have intended eventually to enlarge the field of trade relations. I think we could say that they were carried on on the basis of individual nations, and then looking to certain other nations to extend it to.—A. No, that was not the case before the war, with one or two exceptions; two exceptions perhaps to that rule were Germany and Russia. All the rest of the world by and large have conducted their commercial policy on the basis of the most favoured nation rule.

By Mr. Blackmore:

Q. Have you finished with that, Mr. Deutsch?—A. Yes.

Q. Is it not the case that there were two distinct kinds of most favoured nation treatment, the conditional and the unconditional? Now is it not rather important that we get the distinction between those two? And the obligations to which you have just been referring, are they not applications of the conditional most favoured nation clause while what is being insisted on all through this treaty is the unconditional most favoured nation clause?—A. No. This agreement says you must give any most favoured nation treatment to other countries who have signed this agreement.

Q. That is unconditional so far as all the people who signed this agreement are concerned?—A. Yes, in that sense; of course, you are getting concessions from all the countries which have signed the agreement.

Q. Were there any cases of unconditional most favoured nation treatment before 1922?—A. I cannot answer that offhand.

Q. I do not believe there were. I think the United States really interpreted the most favoured nation clause as unconditional in 1922. I imagined they were working consistently toward that interpretation since 1922, and so were largely instrumental in having the matter established and made world wide in this set of agreements—A. Yes, world wide in so far as they and all countries who become signatories to it are concerned.

Q. Right.—A. But there is no obligation, Mr. Blackmore, to give most favoured nation treatment to a country which has not signed this agreement.

Q. Yes, but if a nation has signed it then you are committed to the unconditional most favoured nation treatment.—A. Within that group of countries our preferential tariffs, the preferential tariffs that now exists within the British Commonwealth, are recognized as an exception to the most favoured nation treatment.

Q. And therefore I was just wondering if what you said a few moments ago was not subject to a certain amount of revisions in the light of that fact; that

if all of the 19 signatory countries enjoy that most favoured nation clause we could hardly be able to classify it as unconditional, but rather conditional?—A. Yes.

Q. It was a special favour that one nation conferred upon another nation, and probably one or two others who were special friends. It never was the idea that the concession was to apply to a dozen.—A. No. I was not making any distinction between the two, the unconditional and the conditional.

By Mr. Fleming:

Q. Would it be correct to speak about this as being unconditional most favoured nation treatment when you have so many escape clauses in the agreement which you have signed here?—A. All the escape clauses do not relate to the most favoured nation rule.

Q. With the idea of the most favoured nation rule I take it we are including also this rule of nondiscrimination?—A. Well, in a large sense you can include it, but technically it is not the term they use here. Here the most favoured nation rule applies to tariffs. That is the technical meaning given to it here. When we come to non-tariff items we talk about discrimination and non-discrimination.

Q. In exercising the rights given by this agreement to a nation to act in its own defence in the case of balance of payment problems is it committing any offence against the principle or letter of this agreement to depart from the rule against discrimination?—A. No. For a transitional period after the war certain leeway is given with respect to discrimination.

Q. I do not want to be leading you into a situation that your answer may be thought to apply to unless you intend it so to apply. When Canada took steps last November and since to protect its exchange position with relation to the United States was it under any obligation legally or morally under this agreement to observe the rule of non-discrimination?—A. It was under no legal obligation.

Q. Was it under any moral obligation?—A. Yes, I think it was partly under a moral obligation in this sense that the spirit of the agreement clearly implies that you will not resort to discrimination unless you have very good grounds for doing so. In our case the government may have reasoned that our grounds for doing so, taking into consideration our own long term interests, were not sufficient for a policy of non-discrimination.

Q. Perhaps if we get into the realm of moral considerations we may find ourselves—A. Not only moral but also our own long term interests.

Q. I will put it on the basis of the legal consideration. Perhaps that is as far as we ought to go on this question. I understand your answer to be that when we have a critical exchange situation with the United States entitling us to invoke the balance of payment clauses that we are under no legal obligation to apply the non-discrimination rule to the solution that we sought to apply there. At the present time and last year when the program was put into effect we were under no legal obligation.

Q. To observe the rule of non-discrimination.—A. No, because in the first place there is a clause in this agreement which says that until January 1, 1949, the rules regarding non-discrimination shall be suspended. That is the first consideration. By that clause alone we were under absolutely no legal obligation.

Q. That would apply from November 17 to December 31?—A. No, January 1, 1949.

Q. Oh, January, 1949.—A. Secondly, even after that date there are allowed under this agreement certain exceptions to the rule of non-discrimination for a temporary period after the war which may be as long as five years, 1952. You may practise discrimination within certain broad rules which are laid down here. You are perfectly within your rights if you come within those rules.

Q. Then on several grounds Canada could have applied these exchange restrictions against the United States without applying exchange restrictions against any other nation?—A. Yes, that is correct; from a legal standpoint that is correct, but there are other considerations involved, and that is our own long term interest, the general spirit of these undertakings, and so on.

Q. That is outside the agreement?—A. That is outside the agreement. That is a question of our own interest.

By Mr. Blackmore:

Q. To use a simple little illustration we could have imported lettuce from the West Indies all during the winter without in any way violating the non-discrimination agreement?—A. Yes, as far as this agreement is concerned we could have done so. That is as far as the legal requirements are concerned. I say there are other considerations which—

Q. For example what?—A. Which the minister of Finance has stated. The Minister of Finance has explained the reasons that moved the government in these matters. There are questions of our own interest, our relations with other countries, particularly our relations with our great neighbour to the south. The government obviously had to take into account what the effect upon that country might be.

Q. Would it be in order to revert to No. 5 for a minute or two?

Mr. JAENICKE: There is just one question I would like to ask on British preference. We can reduce the British preference, Mr. Deutsch?

Mr. TIMMINS: Yes, on any item.

The WITNESS: Excuse me, I was talking with the chairman.

Mr. JAENICKE: With respect to British preference we could reduce it?

The WITNESS: We could reduce the British preferential rates provided that we did not widen the margin of preference.

Mr. BLACKMORE: Or we could increase it?

The WITNESS: We could increase the most favoured nation rate but we must not widen the margin of preference. Also, if we lower the rate, then we must bring down the most favoured nation rate pro rata.

By Mr. Jaenicke:

Q. If we reduce the rate in part 1 down to the British preference that eliminates the British preference?—A. That is right.

Q. And we could never restore it?—A. If you lowered it again you would have to bring down the most favoured nation rate so as not to widen the margin.

By Mr. Blackmore:

Q. May I ask a question on Article No. 5. I am now dealing with a case that is taking place in Ontario where one nation is transporting food by trucks across the territory of another nation. Was there any understanding whereby a nation so doing had to make provision for looking after the roads, or can it just go in and use the roads and break them up without any compensation being offered?—A. No, this agreement would not prevent any country from imposing such reasonable conditions and requirements as it wished with regard to the use of roads and that sort of thing.

Mr. TIMMINS: Such as licences?

The WITNESS: Yes.

By Mr. Blackmore:

Q. In other words, Ontario will be completely in order when she insists that the United States, before using her roads, shall pay?—A. Yes, it is quite correct if it is a fee that is within reason. Obviously it would be contrary to the undertakings to impose such regulations as would nullify the undertaking. In

the case of trucking Canada might say that the United States trucks would have to pay \$5,000 every trip and that would nullify the purpose of the undertaking. That would be a colourable device to circumvent the undertaking and would be wrong, but there is nothing to prevent Ontario or any other province from putting into force reasonable regulations and reasonable charges.

By Mr. Fleming:

Q. Mr. Deutsch, did you read this morning's paper?—A. Yes.

Q. You are aware that the Ontario government, in the exercise of its jurisdiction over its own highways, has said that it will not extend licences to American truckers to operate on Ontario highways?—A. Yes, I saw that.

Q. That means that article 5 is not going to have very much application, and it will prevent the movement of United States trucks in Canada as far as Ontario is concerned?—A. Yes.

By Mr. Blackmore:

Q. I was wondering whether some provision had been made at the conference, at least tentatively, to meet such a situation? I do not think that Ontario particularly wants to keep United States trucks off her road but she does not want to spend \$1,000,000 every once in a while repairing her roads because huge trucks, weighing 30 tons or so use the roads and destroy them. Was there anything agreed upon in connection with that matter?—A. The specific case was not discussed at Geneva in that sense.

Q. Were there any general principle discussed which would cover such a case?—A. The general principle was discussed but the type of regulation which should be applied or imposed was not discussed. Presumably that is something which the province of Ontario would determine; it would not be a federal matter only.

Q. Quite obviously there could be international friction if the United States wished to press the matter?—A. Yes.

Q. We should have some way of amicably settling the difference?—A. At Geneva it was realized that a lot of problems would arise and there was no attempt to foresee all the things which would arise and no attempt could be made to settle them beforehand.

By Mr. Jackman:

Q. I understand if the British preference were reduced we would have to reduce the most favoured nation rate?—A. Yes sir. You may not, under this agreement, widen the margin of preference.

Q. You are not widening it, you are lessening it?—A. If you reduce the preference or margin the M.F.N. is increased and you are not permitted to do that. You can maintain your existing margins if you wish, but you are not permitted under this agreement to widen the margin.

Mr. BLACKMORE: I wonder if Mr. Deutsch would give us a dissertation on that at another time. I am afraid we have not got a quorum at the moment.

The CHAIRMAN: Mr. Deutsch cannot be here next week.

The WITNESS: I can be here on Thursday next.

Mr. BLACKMORE: I am of the opinion that this is the most difficult thing to elucidate in the whole agreement and I wish Mr. Deutsch would do that sometime.

The WITNESS: I may say I have not attempted to explain that before. The question has not come up; but I believe Mr. McKinnon would be in a better position to give you a fuller statement than I could.

Mr. JACKMAN: When we do meet again could Mr. Deutsch give some account of what happened at Havana with regard to article 18, concerning undeveloped countries?

The WITNESS: Yes. It is a lengthy subject and it is fairly complex, but I am at the disposal of the meeting.

Mr. JACKMAN: Surely we can settle this arithmetical matter. We have a 15 per cent preference against Great Britain and a 30 per cent one against the United States. If you reduce the British preference down to 10 per cent why do you have to change your most favoured nation rate?

Mr. McKINNON: I think Mr. Jackman means if you reduce the British preferential rate from 15 to 10 you would have to reduce the most favoured nation rate from 30 to 25 to preserve the preference which is the margin between the two.

The WITNESS: The M.F.N. rate is 30 and the preference is 20 per cent. It is a margin of 10 per cent, an absolute margin. I am speaking in terms not of preference rate but the absolute margin which is 10 points—between 30 and 20—and that margin of 10 you may not enlarge.

Mr. FLEMING: You could reduce it but not enlarge it?

The CHAIRMAN: Gentlemen, we have no quorum. A motion to adjourn is in order. The committee will adjourn to the call of the Chair.

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(SESSION 1947-1948

HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

Subject-matter of the General Agreement on Tariffs and Trade,
including the Protocol of Provisional Application thereof,
together with the Complementary Agreement of
October 30, 1947, between Canada and the
United States of America.

THURSDAY, APRIL 29, 1948

WITNESS:

Mr. H. B. McKinnon, Chairman of the Tariff Board.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY

1948

ORDER OF REFERENCE

THURSDAY, April 22, 1948.

Ordered,—That the name of Mr. Probe be substituted for that of Mr. Thatcher on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MINUTES OF PROCEEDINGS

Room 429, HOUSE OF COMMONS,
THURSDAY, April 29, 1948.

The Standing Committee on Banking and Commerce met at 8.30 o'clock p.m. Mr. G. Edouard Rinfret, presided.

Members present: Messrs. Blackmore, Fraser, Fulton, Gour (*Russell*), Harkness, Harris (*Danforth*), Hazen, Irvine, Jaenicke, Michaud, Pinard, Probe, Quelch, Rinfret, Ross (*Souris*), Timmins.

In attendance: Mr. H. B. McKinnon, Chairman of the Tariff Board, Mr. W. J. Callaghan, Commissioner of Tariffs; Mr. R. Cousineau of the Tariff Board; Mr. J. J. Deutsch, Director of the Economic Relations Division, Department of Finance; Mr. Hubert R. Kemp, Director of Commercial Relations Division, Louis Couillard, Commercial Relations and Foreign Tariffs, Mr. A. L. Neale and Mr. G. C. Cowper, of the Department of Trade and Commerce; Mr. A. Richards of the Department of Agriculture.

The Vice-Chairman read communications received from the Canadian Chamber of Commerce. The Federation of Agriculture, the Horticultural Council, Canadian Manufacturers Association, and Fisheries Council of Canada. (*See Minutes of Evidence*).

The Committee considered Schedule V to the General Agreement on Tariffs and Trade negotiated at the Second Session of the Preparatory Committee of the United Nations Conference on Trade and Employment, held at Geneva from April 10 to October 30, 1947.

Mr. H. B. McKinnon was called and examined on the Agreement and matters relating thereto. In the course of the witness' deposition, Messrs. Kemp, Couillard, Richards and Neale answered certain specific questions.

On the suggestion of Mr. Jaenicke, it was decided that the Steering Committee would meet at 2.00 p.m. Friday, April 30, 1948.

At 12.40 o'clock p.m. the Committee adjourned to meet again at 8.30 o'clock p.m. Tuesday, May 4, 1948.

ANTOINE CHASSÉ,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
APRIL 30, 1948.

The Standing Committee on Banking and Commerce met this day at 8.30 p.m. The Vice-Chairman, Mr. E. Rinfret, presided.

The VICE-CHAIRMAN: Gentlemen, we will come to order. The secretary hands me here copies of letters which have been sent to the respective secretaries of the Fisheries Council of Canada, the Canadian Chamber of Commerce, the Federation of Agriculture, the Canadian Horticultural Council, and the Canadian Manufacturers' Association. These letters were invitations, in a general way, advising the associations of our sessions and inviting them to attend. Here are the replies which I will read. The Canadian Federation of Agriculture, replies as follows:—

April 16, 1948.

Mr. ANTOINE CHASSÉ,
Clerk of the Committee,
Standing Committee on Banking and Commerce,
House of Commons,
Ottawa, Canada.

DEAR SIR,—We have your letter of the 14th notifying us that there will be a meeting of your committee with respect to tariffs and your invitation for us to appear.

I may say that we have no desire to make any presentation to your committee on this matter.

Yours very truly,

(sgd.) C. G. GROFF,
Secretary-Treasurer.

The Canadian Horticultural Council, writes as follows:—

April 22, 1948.

Mr. ANTOINE CHASSÉ,
Clerk of the Committee,
Standing Committee on Banking and Commerce,
House of Commons,
Ottawa, Canada.

DEAR SIR,—I have your letter of April 14th, advising that should this council be desirous of appearing to make representations respecting the general agreement on tariffs and trade, the Standing Committee on Banking and Commerce of the House of Commons will be pleased to arrange to hear our representatives.

I have been instructed to advise you that, while the council is most appreciative of the invitation, it does not desire to make representations.

Yours very truly,

(sgd.) L. F. BURROWS,
Secretary-Treasurer.

A telegram from the Canadian Manufacturers' Association dated April 23, 1948, addressed also to the Secretary of the Committee reads as follows:—

Your telegram twenty-first stop the association thanks the committee for providing the opportunity to appear and to make representations in regard to the general agreement on tariffs and trade stop I am instructed to inform you that the association does not wish to make any representations at this time.

(sgd.) J. T. STIRRETT,

*General Manager,
Canadian Manufacturers' Association*

The Canadian Chamber of Commerce writes as follows:—

The Board of Trade Building,
Montreal, 16th April, 1948.

Mr. ANTOINE CHASSÉ,
Clerk of the Standing Committee on
Banking and Commerce,
House of Commons,
Ottawa, Canada.

Dear Sir:

I wish to acknowledge your letter of April 14 and to thank you for extending an opportunity to the Chamber to make representations, if it so desires, to your committee of the House in connection with the general agreement on tariffs and trade which has been negotiated this past year. I shall have pleasure in consulting the Foreign Trade Committee of the Canadian Chamber and shall communicate their views to you in this connection as soon as possible.

As yet we have not received the conclusions of the meeting at Havana and if printed copies are available, we shall appreciate receiving a small quantity.

Yours very truly,

(sgd.) D. L. MORRELL.

The Fisheries Council of Canada writes as follows:—

Mr. ANTOINE CHASSÉ,
Clerk of the Committee on Banking and Commerce,
House of Commons,
Ottawa, Ontario.

Dear Sir:

This will acknowledge your letter of April 21 advising this council that the Standing Committee on Banking and Commerce of the House of Commons has had referred to it for consideration the General Agreement on tariffs and trade including the protocol of provisional application thereof, together with the complementary agreement of October 30, 1947, between Canada and the United States of America.

May I express through you to the chairman and members of the committee, the appreciation of the president and directors of this council for your courtesy in making provision to hear representations concerning the Geneva Trade Agreements at some future sitting of the committee.

I have notified the appropriate officials of the council, and may expect within the next few days to submit the views of the council on the person to make representations, and solicit from you a date which would be acceptable to the committee.

In all probability the industry will desire to have representations made concerning particular divisions of the industry on the Pacific and Atlantic coasts. Under these circumstances I am sure you will appreciate the necessity for some advance notice, so as to permit the persons who will make representations, reaching Ottawa to be available at the pleasure of the committee.

Yours very truly,

(sgd.) CLIVE PLANTA,
Secretary-Manager.

The secretary of the committee has advised the Fisheries Council to be ready to send representatives here either for the 4th or the 11th of May. Those are the organizations to which the steering committee instructed the secretary to write. If there are any other persons with whom the committee would like us to communicate I would be very glad to be advised now. If there are no further instructions we will proceed with Mr. McKinnon immediately.

Mr. FULTON: Just before we call Mr. McKinnon, Mr. Chairman, would you say whether we have finished with Mr. Deutsch?

The VICE-CHAIRMAN: We have not finished with Mr. Deutsch but at the present time he is in New York and cannot attend.

Mr. H. B. McKinnon, Chairman of the Tariff Board, called:

The WITNESS: Mr. Chairman and gentlemen: I know that the committee desires to examine Mr. Deutsch further regarding the general provisions in the agreement, but Mr. Deutsch is in New York this week at a meeting of one of the commissions of the United Nations. I think that at the close of the last meeting it was the opinion of those present that we could have a meeting or two and proceed with the examination of those of us who had to do with the tariff negotiations. Probably, Mr. Chairman, you will suggest that we address ourselves more particularly to the schedules tonight. Those of us who had to do with the tariff negotiations are here and we are prepared to answer questions with respect to the schedules. I wonder if the committee would mind if I took three or four minutes, as an introduction to the study of the schedule in detail, to review very briefly the background of both the Charter and the Agreement, not with a view to repeating anything which Mr. Deutsch has said but rather for the purpose of making clear the relationship of both the Charter and the Agreement—more particularly the Agreement—to the schedules of tariff items which will be discussed at a further meeting. At the second session of the Preparatory Committee, held in Geneva during the spring, summer, and I am sorry to say the fall of 1947, the work of the Canadian delegation, and indeed the work of every country's delegations, fell into two related but distinct parts. One part of our delegation in one wing of the League of Nations' headquarters—the old Palais—spent the summer formulating a draft Charter to be sent on to a World Trade Conference at Havana. The rest of our group spent the summer in actual negotiation on tariff items with other nations represented at Geneva. Now, in carrying out the tariff negotiations we took cognizance of and were to a very considerable

extent guided by some of the general principles to which Mr. Deutsch has referred, and which we knew to be finding their way into the draft Charter. I said: "knew to be finding their way into the draft Charter" because many of them, indeed the most important of them, had already been formulated and agreed upon at the first meeting of the Preparatory Committee in London in the preceding year, 1946. I might give you an illustration of what I have in mind when I say we took cognizance of them and were guided by them, by reference to the matter of preferences. The provisions regarding preferences had been very thoroughly thrashed out in London in 1946 and they were briefly these: In the negotiations no existing preference might be enlarged, no new preference might be created, and any preferences that remained in effect at the time the negotiations were completed might in future be negotiated with other countries that might seek to join—shall I call it the "Club".

Now, towards the end of the summer it became obvious that the efforts in the two streams of work, if I may put it that way, were tending to merge. To those of us who were conducting the tariff negotiations it became quite certain by the late summer that there would emerge at Geneva a draft Charter. I do not pretend for one moment that any one of us thought it was a perfect Charter, or that any single delegation present thought it was a perfect Charter, but by the end of the summer it had become obvious that a Charter would result. It had become equally obvious that a large number of bi-lateral tariff negotiations would be successfully concluded. I say 'bi-lateral' because, of course, the many trade agreements worked out at Geneva were, in the first instance, bi-lateral. That is to say, if I might illustrate it by reference to the Canadian delegation, we negotiated with some sixteen countries and successfully completed sixteen negotiations which were in the first instance bi-lateral. Similar negotiations were carried out by the United States, the United Kingdom, France, Benelux, etc. Once it had become certain in the minds of the delegations that the results were coming in the form of a draft Charter, and that results were coming from the other line of effort in the form of completed tariff negotiations, it became manifest that it was important to marry the two streams of effort—to merge the two jobs that had been done. There were one or two over-riding considerations behind that conclusion. The first is illustrated by the old proverb that "a bird in the hand is worth two in the bush". We knew we had a draft Charter in hand, even though it was not a perfect Charter. There was also the consideration, very keenly felt by the twenty-three countries at Geneva, that it would be too bad to lose the ground that had been gained at Geneva in respect to tariff negotiations looking toward the removal of barriers to trade. It was also clear it would not be good enough to go home with nothing but schedules. In other words some flesh had to be put on to the skeleton, some living force had to be given to the bare schedules. Therefore, when it became certain a draft Charter would emerge and that tariff negotiations would be successfully completed it was decided by the delegates present that they would put into one instrument all the schedules—of which there were twenty—plus those articles borrowed from the draft Charter; the single instrument is what is called the General Agreement.

Probably I have repeated some of what Mr. Deutsch said, but I think the repetition may make more clear to the members of the committee the facts of a very complicated situation: namely, that the General Agreement is simply an abridged edition of the first draft of the Charter plus the schedules of tariff concessions.

Some member of the committee might say; "Well, why was it necessary to borrow from the Charter, which is only a draft Charter, certain provisions and put them in front of the schedules and call that an Agreement?" Well, obviously, many of these were necessary; particularly those which for years have been standard in any commercial treaty or trade agreement. The one that first comes to mind, of course, is the clause about most-favoured-nation treat-

ment, inclusion of which was the practical and normal way of generalizing among all the participants the results of scores of bilateral tariff negotiations. Also very important in our mind was the matter of valuation. A great deal of work had been done on that at Geneva which had never been attempted before—the formulating of a uniform set of principles regarding valuation for duty purposes—and otherwise that would have been lost. It was equally desirable and wise to put into clauses regarding quantitative restrictions; and those about dumping duties. The latter is a simple example, but it is a very important one. It would have been very unwise for the delegates to break up at Geneva, having accomplished a great deal of work in tariff negotiation and having achieved a draft Charter, not to put into the Agreement some provision regarding such a common matter as dumping.

Then, to go back to the point to which Mr. Deutsch I think referred several times, Mr. Chairman: there had to be created what is somewhat akin to the provisional directorate of a company being incorporated: namely, a body to carry on until the time when there would be a Charter and an international trade organization. One representative from each of the contracting countries will sit with his opposite numbers, all comprising a sort of provisional directorate, and when acting jointly in such capacity, they are referred to in the Agreement as the Contracting Parties with capital letters. That group will act as a sort of interim trade organization pending the institution of the more formal I.T.O. envisaged in the Havana Charter. Having achieved, therefore, a General Agreement it was then provided by means of a protocol that such countries as were able to do so should bring the Agreement, including the tariff schedules, into effect provisionally. Eight countries agreed to do so and, since we left Geneva, Cuba has signed the protocol of provisional application.

I would like to emphasize what Mr. Deutsch said in his evidence, that it is the General Agreement we are discussing and not the Charter, which is not yet before parliament. No one knows exactly when the Agreement will be ratified by the parliaments of all the countries concerned or when it will be brought fully into effect. In some countries that will be done more quickly than in others because their legislative and constitutional procedures permit it. In our own case, and in that of Britain and the United States, it was possible to bring it into effect provisionally.

Having given that very brief review I hope it will not be felt by the committee, Mr. Chairman, that I have wasted time, because it seemed to me to be a necessary link with the talks that have been given by Mr. Deutsch at the earlier meetings. I know that Mr. Blackmore in particular wanted to discuss preferences; and I think also Mr. Jaenicke, and Mr. Fulton was anxious to know more about the international trade organization in its final form. Mr. Deutsch will be prepared to deal with the latter item at a future meeting.

As officials, we have frequently referred, perhaps a little too glibly, to schedule V and some may wonder why it is numbered schedule V; and where the others are. There are appended to the General Agreement twenty schedules, each schedule representing a signing country. A number was allotted to each country. The number allotted to Canada was V. We can therefore show in detail all the concessions given because they are all included in schedule V, which has been printed and distributed. We cannot show in one document the concessions we secured, because they are included in the other nineteen schedules. These cover some 45,000 to 50,000 tariff items in the tariffs of nineteen or twenty countries. But anyone wanting to know at any time what concessions Canada got on any commodity and from any country represented at Geneva can get that information in detail from the Foreign Tariffs Division of the Department of Trade and Commerce.

Just before we start on the schedules, Mr. Chairman, I might repeat what I said the other night; that of about 2,000-odd items and sub-items in the whole Canadian tariff, schedule V, being the Canadian concessions at Geneva, includes

shall we say in round numbers 1,000 items in 600 of these the most-favoured-nation rate is reduced; in the other 400 it is bound against increase; that is at the rate which prevailed before Geneva. In addition you will find in schedule V, what is called Part II, which represents the results of specific negotiations with the United Kingdom and one or two other countries of the Commonwealth. Schedule V, Part I, relates to foreign countries; Part II, relates to intra-Commonwealth negotiations and included therein are about 100 items of our tariff in which the United Kingdom or South Africa or some other part of the Empire expressed a particular interest and which as a result of negotiations were included in the schedule. Every time the most-favoured-nation rate alone was reduced it naturally and necessarily narrowed the margin of preference. But in every single case in which that happened, it was done with the concurrence of the other countries concerned. In that process the preference in our tariff was eliminated on some 94 items of 1,050. At first, perhaps, that might seem to be a drastic elimination of preferences, but when, as I say, not a single one of them was done without the concurrence of the other contracting parties in the Commonwealth; and when also those 94 items included such items as those relating to fresh oranges, fresh grapefruit, dried prunes, and anthracite coal—it gives some indication of the nature and extent of the elimination of preferential margins in the Canadian tariff. I can assure the members of the committee that a great many of them caused not the slightest disturbance to other members of the Commonwealth with whom they were discussed. Equally, it was true on Mr. Kemp's side, that no preference of ours in the United Kingdom or in any other part of the Commonwealth was eliminated or reduced without full consultation and without the concurrence of the Canadian delegation. In other words all the way through, for eight months, it was continuous daily consultation in the tariff-negotiating field, producing, ultimately, sixteen completed agreements; just as, in the other part of the work, it was continual compromise, if you like, for eight months, finally resulting in a draft charter which was later amended, as Mr. Deutsch has shown you in more detail, at Havana; not substantially, and which now awaits ratification by the 51 or 52 countries which signed at Havana.

I think, probably, Mr. Chairman, that is sufficient as a general introduction to study of the schedules.

By Mr. Harris:

Q. Before Mr. McKinnon retires, I wonder if he would give us a word or two with regard to the progress being made in the United Kingdom and, particularly, the progress being made in the United States in getting this closer to the statute books?—A. All I know in respect to the United Kingdom, Mr. Harris, is that a debate occurred in the British House, I should think, very early in February or late in January. I think it was a matter of a one-day debate and, so far as I know, the agreement is approved but has not yet been formally ratified. In the United States, there is no question it was the intention, a completely honest intention, to get the instrument before Congress at this current session. However, the proceedings at Havana were so protracted and the congressional program became so complex, so filled up with other urgent matters, they have not been able to do it. As Mr. Deutsch said the other night, we doubt very much that Congress will see the Agreement or the Charter until sometime in 1949. With regard to the other countries, sir, I do not know of the agreement having been ratified as yet in a single country.

Mr. JAENICKE: I have an item here from the *Christian Science Monitor* of January 31, 1948, which says,

The House of Commons has endorsed by 256 votes to 111, the British government's acceptance of the International Trade Agreement signed at Geneva last October.

The WITNESS: Then, I was a little wrong. From memory, I said "early in February", but apparently the British acted in January with regard to approval by Parliament.

By Mr. Timmins:

Q. Can you tell us something about these 94 items on which you say the tariff was reduced? Is this a proper place to bring this matter up?

The VICE-CHAIRMAN: I was going to ask whether there were any general questions?

By Mr. Jaenicke:

Q. Are not they the items in part ii of Schedule V?—A. No, those in Part II effect reductions in the British preferential rate.

Q. This Part II, Schedule V, is not that all that is left of the British preference?—A. No.

Q. How many items would be in the British preference altogether?—A. Well, there are roughly, shall we say, 2,000 items, if one includes all the sub-items, in the tariff. There are several hundred items which are "free across the board." In all that are not free across the board, with very few exceptions, there is some element of preference. As I say, we have eliminated the preference in only 94 items out of about 1,050 that were dealt with at Geneva.

By Mr. Fulton:

Q. On how many items has the United Kingdom reduced the preference accorded to Canada?—A. That is a question for Mr. Kemp, but I would answer it in a very general way. If we think of substantial preferences, preferences that really amount to something in dollars and cents in trade, you could almost count on the fingers of one hand the preferences that were eliminated; that is, preferences that Canada enjoyed in other parts of the Commonwealth. And you could count almost on the fingers of two hands preferences we enjoyed that were reduced in other parts of the Commonwealth. I am talking of course about substantial preferences.

By Mr. Timmins:

Q. Is there any reference in the schedules which have been covered in this item No. 2 of our Standing Committee on Banking and Commerce, to cover these 94 items?—A. Yes, I think there is a special paragraph in the press release, Mr. Timmins. You are talking now, sir, of the Canadian tariff?

Q. That is right, yes.—A. The most precise way of finding that is, of course, from the headings to the Schedule, relative to present rates, British preferential and most-favoured-nation; and, proposed rates, British preferential and most-favoured-nation. On those items where the two proposed rates are the same, the preference is eliminated.

By Mr. Irvine:

Q. May I ask you a question? Would it be possible for you to prepare for us a complete list of those 94 items for the next meeting?—A. Yes, I think that would be possible. That would answer Mr. Timmins' question also and it would be quite easy for us to bring the list of items. I have mentioned three or four of the most substantial of these. Whether you look at it from the point of view of a loss to the other Commonwealth partner, or whether you look

at it from the point of view of a gain to the United States or some other country, probably the most substantial preference which has been lost in our tariff, I should think, was the preference on anthracite coal.

By Mr. Harris:

Q. And the one on tin plate was a serious one?—A. I will make a special reference to that later. Anthracite coal formerly entered free of duty from the United Kingdom and paid a duty of 50 cents per ton under the most-favoured-nation tariff. Now, as the result of Geneva, anthracite coal is on the free list and the preference is eliminated. I am not suggesting for a moment that that did not, shall we say, bother the United Kingdom delegation for a little while; of course, the loss of any preference bothers any delegation which has to come home and give an account of its stewardship. However, it appeared that it might be some considerable time before the United Kingdom would be in a position to again supply anthracite coal to Canada.

By Mr. Timmins:

Q. They had lost that trade during the war, pretty well?—A. Exactly, and I had been going on to say that it might be some considerable time before they would again be in a position to supply very much to Canada. Moreover—and some may feel that this is a consideration which, ordinarily, civil servants negotiating tariffs should keep in mind, but we could not forget it—from time to time the fuel situation in this country is such that we are almost on our knees to the United States in connection with a supply of anthracite coal. On several occasions as members of the committee will remember, the United States has been forced to institute a degree of rationing in its own country in respect of coal and has always striven to see that supplies for Canada were maintained at a fair standard.

Q. Having regard to the fact that oil is in short supply in Canada and oil prices are going up, we would be wanting more and more coal but we have lost that British coal preference forever, have we not?—A. You mean we cannot—

Q. We will never be able to get that preference back again in so far as coal?—A. No, not under the Agreement.

Q. At least, the British will never get the preference back again?—A. That is right.

Q. Under Geneva?—A. Yes. I do not say that Britain was not bothered by it. Of course she was, but Britain concurred in it. It was impossible to get agreement among some 16 or 17 countries without making some concessions. The concession on anthracite coal was of prime importance to the United States. I have often been amazed, as an official, that they attach such importance to it when we are so dependent on them for it, but the fact is, they do. The members of the committee will agree it was not a very great preference, anyway, on coal that pre-war was laid down in Canada to sell at retail at \$14.50 and \$16 a ton. Fifty cents a ton was not a great preference, and we decided to drop it. I say "decided" because all this is subject to ratification by parliament. However, the officials on the spot had to do the negotiating.

Q. I am sorry I am usurping so much time, but I want to ask one more question. Suppose in the future we wanted to do some bartering with Great Britain. We will say that we want that coal and we have something here that they want very badly, wheat. Can we under the Geneva Agreement barter our wheat for their coal?—A. I would think we could, but that question is taking us into the more general provisions. Mr. Couillard, who was acting for Mr. Deutsch at Havana, would be able to answer that more clearly than I. I do not think there is anything under the Agreement that would preclude such a transaction.

Mr. COUILLARD: I would agree with that statement. A bilateral commodity deal would of course have to be based on commercial considerations, to which I see Mr. Deutsch referred.

Mr. TIMMINS: I noticed he did. That is the reason I mentioned it. Suppose we decide to do that on 10 or 15 different articles in Canada with 10 or 15 articles in Great Britain by bartering. Would that be precluded or would that be included?

Mr. COUILLARD: I would interpret the present provision of the charter to mean that this type of deal would come under the state trading provision. The state trading provision as contained in the agreement is quite short and in abbreviated form from the Geneva draft charter. What is now contained in the Havana charter, however, is fairly well the same in substance as you have now in the General Agreement, and the basic criteria on which these governmental deals are judged are commercial considerations such as price, quality, marketability, transportation, availability of supplies, including the long-run availability of supplies, volume of business involved, etc.

Mr. QUELCH: Could a barter agreement of that kind be carried out if it were considered to be detrimental to some other nation? For instance, if we had a barter agreement as Mr. Timmins has suggested, wheat for coal, on a very large scale, and the result was that the nation we were making the deal with limited their imports of wheat from certain other countries would that not be considered a form of discrimination?

Mr. COUILLARD: If some other country considered that the benefit which would accrue to it under the agreement was being nullified or impaired then Article XXIII—in the Agreement, entitled Nullification and Impairment, would be invoked, the case would be brought before the CONTRACTING PARTIES and a solution found.

Mr. IRVINE: Does that principle hold good after 1951?

Mr. COUILLARD: What principle, sir?

Mr. IRVINE: That you have just stated?

Mr. COUILLARD: Of commercial considerations?

Mr. IRVINE: Yes.

Mr. COUILLARD: Yes, it does.

Mr. TIMMINS: It is not just a post-war consideration? Some of these exceptions are for the post-war period but that which you are speaking of now is not?

Mr. COUILLARD: The commercial consideration criterion is a permanent one.

Mr. FRASER: Before you sit down, suppose the contracting parties agree to it but then other countries disagree. What happens then?

Mr. COUILLARD: What other parties do you mean, sir?

Mr. FRASER: We might have an agreement between Great Britain and ourselves, but the United States or some other country might disagree. Then that agreement could not go through, could it?

Mr. COUILLARD: Under the nullification and impairment clause the United States could complain. The situation would be considered by what is known in the agreement as the CONTRACTING PARTIES in capital letters. That is the contracting parties acting jointly as a committee. Obviously it is to the advantage of the contracting parties concerned to reach a solution. If a solution cannot be found, and if impairment is established, then the contracting parties acting jointly, if they consider the circumstances serious enough, may release the offended country from certain obligations, or release it from the grant of appropriate tariff concessions.

Mr. PINARD: Not all of them?

Mr. COUILLARD: There is no provision to permit all the contracting parties to take that type of action. It is limited in the first instance to the affected members, in other words, members who are adversely affected by the measure taken.

Mr. HAZEN: I do not know much about this. I am asking for information. Does the Havana Charter not disapprove of barter agreements unless they are approved by the international trade organization?

Mr. COUILLARD: In principle.

Mr. HAZEN: Even then does it not disapprove of them if it takes too long for the international trading organization to consent to them? Is there not something like that?

Mr. COUILLARD: In principle the charter does frown on bilateral agreements. One of the main objectives of the Havana Charter is to establish a multilateral basis of trade, and obviously bilateral agreements might be considered to work against the attainment of that general objective.

Mr. HAZEN: If they do want to go into one do they have to get the approval of the international trading organization?

Mr. QUELCH: Of the CONTRACTING PARTIES?

Mr. HAZEN: Of the organization itself, the whole organization. Would they have to get approval? Does it have to be approved by some governing body before they can do it?

Mr. COUILLARD: There is no provision which requires prior approval in that case.

Mr. FULTON: Is it not the case that they wait until somebody complains?

Mr. COUILLARD: That is right.

Mr. TIMMINS: In other words, you might make ten of these agreements and carry on for a year or two possibly, and then the thing would be brought to a head by a complaint by some country that thought that it had been wronged by what was going on?

Mr. COUILLARD: That is correct; on the basis of a nullification or impairment of a benefit under the agreement.

Mr. TIMMINS: Is there any material difference between Geneva and Havana with respect to this matter of barter?

Mr. COUILLARD: As to barter agreements entered into by governments—I did not specialize in that field at Havana—I do not know, however, of any changes in substance. The basis of the state trading provision still remains that countries which enter into state trading operations will not enjoy greater privileges than so-called free enterprise countries enjoy, and conversely will not be saddled with obligations more onerous than free enterprise countries.

Mr. QUELCH: Is it not true to say that it would be a breach of the principle of the charter to do anything by a backdoor method that could not be done by the front door? In other words, if you try to restore a preference by a barter agreement that would be considered really a breach of the principle?

Mr. COUILLARD: Yes, I would think so, sir.

Mr. BLACKMORE: Is there any difference between a barter agreement and a bilateral agreement?

Mr. COUILLARD: The two terms are quite general and used rather loosely; but a barter agreement is generally considered an agreement for the exchange of goods between two countries, which is within the strict definition of a bilateral agreement. A bilateral agreement, however, is not limited to the exchange of goods.

Mr. BLACKMORE: Where they trade a certain kind of goods for another kind of goods?

Mr. COUILLARD: Yes, the exchange of commodities.

Mr. QUELCH: I notice in the records of the Senate committee it was stated that if an agreement had been in operation the British wheat agreement could not have been signed; would you say that is correct?

Mr. COUILLARD: I am trying to understand, but I did not fully hear your question.

Mr. QUELCH: That British wheat agreement was signed prior to the time this agreement had been entered into. Had this agreement already been entered into could we have signed the British wheat agreement?

Mr. COUILLARD: I believe that the British wheat agreement might not have been in compliance with all the provisions of the Agreement. There are, however, qualifications to that statement—

Mr. QUELCH: Would you consider the international trade agreement which has now been signed between a number of nations in conflict with this agreement?

Mr. COUILLARD: The International Wheat Agreement, as it now stands and at the time of its drafting, was formulated with an eye to the section on international commodity agreements, Chapter VI of the Havana charter, and consequently in all of its substantive provisions is in strict accord with the provisions of the Havana charter. I understand that in addition there is a clause in the wheat agreement which provides for amendments to bring it into line with the provisions of the Havana charter.

Mr. QUELCH: I had in mind that under the British wheat agreement you establish quotas. Whereas it might be all right for a nation that is selling—they might not be in conflict with the charter—I should have thought that the nation that is buying would have committed a breach of the charter if in order to accept the amount they had agreed to under the quota, they had reduced their imports of wheat from another country: would there not be discrimination there?

Mr. COUILLARD: The provisions in the Havana Charter on international commodity agreements are rather long and complex. There is, however, a provision for equal participation of importing or consuming countries and producing or exporting countries; and in the commodity councils which are envisaged all such countries have an equal voice in most questions which come to a vote.

Mr. JAENICKE: Why would you say the British wheat agreement would have been contrary to the provisions of the agreement? It was not a charter agreement.

Mr. COUILLARD: It was a bilateral agreement done between countries and therefore falling within the state trading provisions of the agreement; and I presume that the reasons which might have been advanced in the Senate committee were that such considerations as method of negotiations or perhaps price brought it out of the rather strict definition which can be placed of what is known as commercial considerations.

The VICE-CHAIRMAN: Now gentlemen, are we not at the present time trying to continue Mr. Deutsch's evidence through Mr. Couillard? I think we should come back now to Mr. McKinnon.

Mr. JAENICKE: I would like to ask Mr. McKinnon what the provisions are in section 5 of the customs tariff? It is referred to in the note of Canada to the United States on page 96 and again in the note of the United Kingdom on page 102. that the provisions of section 5 of the Customs Tariff Act shall not apply; will you explain that section to us?

The WITNESS: Section 5 which, as you say, is referred to in the exchange of notes is a section in the Canadian Tariff Act, which provides, in respect of

British preferential duties on goods entering Canada, that if such goods come direct to a Canadian port and the rate of duty thereon is 15 per cent or more, there is granted a discount of 10 per cent from the duty. In other words, it is a premium for shipping direct to a Canadian port. Now, the provision to which you refer here, sir, is this, that in those instances where, as a result of Geneva, the most-favoured-nation rate and the British preferential rate have become the same, and, therefore, there is no preference then no longer does that shipment discount apply because the preference is not there.

By Mr. Jaenicke:

Q. I cannot read it that way. Just a minute. Oh, I see.—A. You see, the discount in a sense was a factor in the preference. It was given because of the preference, but provided the goods came direct. Once the two rates have become the same, there is no preference. Therefore, if we continued to give a discount on the British preferential rate, we would in equity have to give a discount on the most-favoured-nation rate.

Q. It would still be in effect in those eighty-six items in part II?—A. Yes, wherever there is a preference.

Q. The 10 per cent discount would still apply wherever the preferential rate is also?—A. Yes, the new provision will affect only a few items where as the result of negotiations the two rates have become the same. A good illustration is the item that Mr. Harris referred to—the rate on tin plate. This used to be free under the British preferential tariff; 17½ per cent to most-favoured-nations. The rates are now 15 per cent and 15 per cent. That is the one instance in the whole agreement of an increase in the rate of duty.

Q. That is the only increase in the British preference?—A. That is the only increase in any item, under any tariff, in the whole agreement; there, the rates have become the same; there is no preference and, hence, the discount would not apply.

By Mr. Blackmore:

Q. Give us the reason why it was found necessary to place a duty of 15 per cent on British goods—British tin plate coming in?—A. Well, a great deal of importance was attached by the United States to the preference on tin plate. It was one of the 150 bound or fixed margins in the Canadian tariff—that is, those items on which the margin was contractual and could not be reduced unilaterally by Canada. The British, undoubtedly, were moved by two considerations: first, that during the war, just as Mr. Timmins has said in connection with coal, they had completely dropped out of our market in tin plate. I doubt if they sent us a ton in some of the war years, whereas they had formerly been very heavy suppliers. Secondly, in spite of their tremendous development of strip mills and tinning capacity, the British quite frankly had doubts about being able again to come into the Canadian market. Thirdly, they were quite aware of the fact that we are becoming ourselves tremendous producers of tin plate. With the knowledge of our tremendous expansion, during the war and since the war, I am quite certain they came to the conclusion that that preference was worth very little to them, because more and more we were supplying our own tin plate.

By Mr. Jaenicke:

Q. Do we supply enough in Canada for our own needs?—A. I believe at the moment—I have been out of the country and out of tariff work for some time—but I think that owing to the extra demand at the moment we probably do not; but under normal conditions we could now supply practically our own entire requirements. But the point is, the British have dropped out of this field, and as far as I know we are making no effort to re-enter it.

By Mr. Timmins:

Q. If the British gave us such a good preference as tin plate—or what had been a good preference—would some other compensation of equal value be made to them?—A. No, I would not say, Mr. Timmins, that any single concession was matched by one on another item.

Q. United States seemed to think they wanted that and they wanted it badly, and they were probably insisting very strongly that that preference be done away with.—A. Let us say that they attached a lot of importance to tin plate, because Britain had been the large supplier in this market. There was however no single item that was regarded *quid pro quo*.

Mr. FRASER: Was there any request by our manufacturers that the tariff on tin plate should be raised.

The WITNESS: No, not the slightest. I may say that in the entire time we were in Geneva, we never heard from them in any shape or form.

Mr. JAENICKE: Perhaps they did not know you were there.

Mr. FULTON: There is more truth than you might expect in that.

Mr. TIMMINS: Did the Canadian delegates take any business people outside of the experts from the government? Did you confer in Geneva with any Canadian businessmen?

The WITNESS: Roughly what was done was this, Mr. Timmins. Before the delegation left for Geneva the government set up by order in council a special committee to do nothing but hear the views of industry, agriculture, fisheries, and all the domestic interests that might be affected. That committee sat for some months and we received something between 500 and 600 briefs. We interviewed every person that came to Ottawa to put in a view, pro or con. There was a tremendous amount of information collected, collated, filed, and taken with us, a great deal of which had been collected as a consequence of the functioning of this committee. But the delegation was made up entirely of government officials.

Mr. PINARD: But during the time—

The WITNESS: During the time we were in Geneva there arrived at different times and stayed for different periods, representatives of the Canadian Manufacturers' Association, of the Textile Institute of Canada, of the automobile industry, of the fruit and vegetable industry, and of the base metals industry. These people came of their own volition, paid their own expenses, stayed such length of time as they wanted to stay, and were free to see the delegation at any time; and they did see us many times.

Mr. PINARD: I suppose you were kept aware of representations made to the department here while you were away?

The WITNESS: Any representations made to the government after we left were forwarded to us in Geneva.

Mr. HARRIS: I would like to confirm the statement made by Mr. McKinnon. It so happened that I was privileged to sit in on some half dozen conferences before the delegates left here and they did a wonderful job on the schedule from beginning to end. They saw everyone whom they ought to have seen and I think the proper way to express it would be to say that they knew their stuff before they left.

The WITNESS: I think, Mr. Harris and gentlemen, there was not a single item in the tariff on which we had not the most complete statistical information; data regarding production, employees, methods, raw materials, trade, preferences, whether the tariff margin was or was not bound, what the *ad valorem* equivalent was if the duty was specific, etc., we had also a *précis* of every single representation made to us.

Mr. FULTON: This would probably be the time to ask you about the loss of the preference on apples. I have studied very carefully, Mr. McKinnon, the statement which you made to the Senate committee on trade relations and particularly the passages at page 43 where several senators were asking you questions on the loss of the preference and asking why our delegation gave up the preference. The tenor of your answer was that it was felt the British preference on apples was not of very substantial value and you said the British apple market was losing its attraction. I would like to read the words you yourself used when questioned as to the British apple production and you said:—

I believe that they could produce this year all their requirements; they would not need to import a single apple. Apart altogether from considerations of exchange and trade agreements, they would not need to import an apple for their own use this year. The extent to which the orchards in Devon, Cornwall, Somerset and Norfolk have been developed is simply amazing. We had to keep in mind the consideration that we were dealing, as Mr. Deutsch intimated yesterday, with the livelihood of our people. The fact was that the United Kingdom market was becoming not only less attractive in that sense, but probably less real as regards the benefit of the preference; that is, in view particularly of the fact, in the short term, that she had no money with which to buy apples; and, in the long term, that it seems to be her policy to become self-sufficient in apples.

Now I hesitate to disagree with you, Mr. McKinnon, naturally, but I should say this. I questioned the British Food Commission in Canada on those statements and I have a number of figures here which they gave me as to their own apple production, and I can find nothing in what they told me to substantiate your statement that the United Kingdom is seeking to become self-sufficient in apples.

The WITNESS: I will answer that as best I can, point by point. Before we left Canada our committee devoted a number of hearings just to the matter of the apple preference. We not only interviewed a considerable number of the representatives of the industry but we got the most complete information we could from the Department of Agriculture and from the Horticultural Council. There was also brought to our attention at that time information provided to government publications by Canadian government trade commissioners, and others, relative to the lessening attraction for Canada of the United Kingdom market. I think it was Mr. Gornell who had published a striking article on that subject; he has been for many, many years connected with the distribution of Canadian fruit in Britain. All the evidence we had seemed to be so complete, so conclusive, and so weighty, that we went away feeling that we perhaps should not attach too great a price to the apple preference in the United Kingdom, not only because of what appeared to be its lessening attraction for our industry but also keeping in mind the fact that for the foreseeable future Britain just would not have the dollars to buy our apples. Indeed, as most of you know, apples were one of the first things she decided to do without when she found herself in financial difficulties.

When we arrived there we made some inquiries about apples, the size of the apple production, the industry, and the plantings. All the information we received bore out in detail what we had received in general in Canada. I noticed, sir, that you had put in Hansard some statistics about apples, bearing trees, and so on.

Mr. FULTON: Yes.

The WITNESS: In the first place—and my memory is not entirely accurate since it is a couple of months since I read the figures—I think the statistics

started with 1937 and ran through into 1946 or 1947? The trend in the figures you used was not so obvious as it would have been if you had gone back a few years before that and the real trend would have been very different had you taken into account, Mr. Fulton, not only bearing trees but plantings. I think your figures related strictly to bearing trees whereas the figures we have on file take cognizance not only of bearing trees but of plantings and they show a most distinct trend. The graph is upward. In connection with apple production in Britain as represented by trees, whether bearing or non-bearing, keeping in mind the seven to nine years required for a tree to come into full production, you would have to inflate your figures to the extent of including the trees planted during a certain period just prior to the war. Then, you would have to keep in mind that during the war there was no doubt a good deal of wastage of trees; they did not have fertilizer, they did not have men to attend to them, and a lot of trees were allowed to go to wood. I would like to refer to Mr. Richards of the Department of Agriculture who is here and who knows the subject in much greater detail than I. However, it apparently is the fact that, from now on, barring the unforeseen catastrophe in the form of blights or bad weather, Britain will be self-sufficient as regards fresh apples.

Q. It is rather distasteful to me to attempt to argue with you, because I have to say that some of my figures do not appear to agree with what you have just said as to the relative position of the United Kingdom and Canada at the present time in the matter of apples. As you say, when they got into financial difficulties that was one of the first things they abandoned for the immediate future. You said, I think, the foreseeable future. I hope we do not have to contemplate extension of the dollar shortage that long.—A. I might amend that and say, the immediately foreseeable future.

Q. But, with respect to the plantings here, I think probably the best way to do would be to consult the recognized authorities and try to get the most accurate information that we can. I asked the British Information Office here for information on trees, and particularly about production, and they had figures going back as far as 1938, and in that year the production was 14,506,000.—A. They did not describe them as bearing or not?

Q. There was no differentiation made. The 1939-40 figure is 15,245,000. These are the fiscal period figures. In 1946, I got 14,799,000. So that it is running 14½ to 15 million trees. It would appear that there was an increase, but whether or not the British are making themselves self sufficient in apples, as you said, that is not in accordance with the information which has come to my attention. I said to them, if they were such would you not know about it; and they said, yes, it would be one of the things we would be informed on, because we could not very well carry on our business here without it. So I say that is information which has some bearing on yours. Now, you have suggested that I should perhaps have gone further back prewar than I went because my figures did not include plantings started away back there. If that were the case, 7 or 8 years, one would expect perhaps to see a substantial decline in Canadian exports during the war years, and also in the prewar years; but I have figures here to show the volume of Canadian imports of apples into the United Kingdom remaining substantially at the same level. Starting in 1936-37, which is 12 years ago—11 or 12 years ago—I think that is quite a way back; domestic production was 345,000 tons and imports were 281,378.—A. That is right.

Q. 1937-38—these figures are obtained from the United Kingdom Food Mission.—Q. Yes.

Q. You told me it was from statistics they have on file there. In 1937-38, the domestic production was 156,400 and the imports were 274,000 tons. In 1938-39, the domestic production was 86,000 tons and the imports were 357,800 tons. In 1939-40, the domestic production was 453,000 tons and the imports were 234,000 tons; and in 1946-47, the domestic production was 360,000 tons

and the imports were 90,800 tons. And I am told that in that last year they were already experiencing the dollar shortage. Now, I have some other figures here which are taken from the Canadian Year Book figures published by the Dominion Bureau of Statistics relating to crop years for approximately the same period. Our domestic production—this is in barrels—in 1936, was 4,115,000 barrels. Our exports to the United Kingdom were 1,838,000 barrels. In 1937, our production was 9,163,000 barrels and our exports were 2,473,000 barrels. In 1933, the production was 5,252,000 barrels and the exports were 1,427,000 barrels. In 1940, the last year for which the year book figures are available, production was 4,101,000 barrels and exports to the United Kingdom were 362,000 barrels. In 1946—this is obtained direct from the Bureau of Statistics, the figures are not available, are not published yet in the year book—production in Canada of apples was 6,427,300 barrels and exports to the United Kingdom were 1,151,000 barrels; which compared quite favourably with our prewar exports and comprised a very substantial proportion of our domestic production. That is the last year for which we have figures available anyway. As I interpret the figures the United Kingdom is still in a domestic shortage position with respect to apples, and Canadian exports are substantially back to where they were, taking the 1947 figure. That would seem to indicate to me at least that Canada has a good future; and it seems to me on that basis to answer your contention that the increase in plantings would eventually take care of the situation. All I can say about it is that as yet we have not felt any effect of that in the volume of our exports, in the first place; and, secondly, they have no record of any such production; and then, finally, our exports were continuing at this substantial level; so that one would have thought that on the basis of these figures that once the financial difficulties are overcome, in the United Kingdom we would be able then to acquire a possible market for all these goods we could produce.—A. After your figures had appeared in Hansard, we went immediately and tried to obtain such data as we could regarding the British apple-tree population, if I may put it that way, including not only bearing trees, but also trees which have not yet come into bearing.

Q. May I ask if you have been able to establish that differentiation between what they call preserve apples, cooking apples and dessert apples?—A. Yes, we have. Now I should like to put on the record, Mr. Chairman, information provided by Dr. Richards of the Department of Agriculture, this particular reference being an excerpt from a publication of the Institute of British Research in Agricultural Economics of the University of Oxford, entitled "The economic position of the apple growers, 1946". This was the most recent information we could obtain; actually, the year prior to the negotiations.

By Mr. Quelch:

Q. Will these figures also show the percentage of production of apples in England that will be used for cider and the percentage that will be used for eating?—A. No.

Q. Have you figures to show the increase in plantings for cider production?—A. Certain aspects of them all excepting cider.

Q. You take, there is a large section of Wales where they grow apples exclusively for cider purposes.

Mr. FULTON: That is why I asked if you differentiated with respect to our imports. Our exports really are dessert apples.

The WITNESS: That is right. That is why I should like to read from this article. I quote from it:—

Directive opinion among fruit growers in this country has been aware of the situation and plantings of table fruit, chiefly dessert varieties, exceed grubblings at a fairly steady rate of 1,250 acres per annum between

1929 and 1939, the period of recovery from the ebb after the flow of planting following the First World War. The estimated area under table varieties of apples in 1946, at the equivalent of (i.e. including the apple fraction of mixed orchards) 132,500 acres, is the highest recorded in this country.

Now, those are the statistics up to and including 1946.

Prior to 1939 the apple industry was making progress in the organization of production and marketing, the latter being exceptionally difficult to achieve in the absence of a common channel of movement of supplies. The importance of grading and packing was appreciated and a nucleus of large growers had adopted National Mark or their own equivalent or superior standards. . . . In the inter-war period some 20,000 acres of well-managed commercial orchards came into being but there existed at the same time thousands of acres carrying neglected or derelict apple trees which were as much a liability as an asset to the occupier.

The 1944 census of fruit trees shows that there were 4,277,000 trees of the dessert variety and 707,000 of the culinary variety under nine years old in England and Wales.

By Mr. Fulton:

Q. What year was that?—A. This was the 1944 census—a total of practically 5,000,000 trees under nine years old and they are not yet in full bearing. Mr. Richards goes on to add in his covering memorandum:

The 1944 census records the total of 14,683,000 apple trees of the dessert and cooking varieties.

Whether or not that would include apple for cider, I do not know. I suppose everything is included.

According to the Oxford Institute statement, 5,084,000 trees were under nine years old. This means one-third of the apple trees in England and Wales were just coming into full bearing or had not reached that stage in 1944.

I can only say, Mr. Fulton, that the information we were able to get in England, not only from other Canadian government officials there who had had to do with the fruit movement, but from certain of the British officials themselves, was that, from now on, Great Britain would be practically self-sufficient as regards fresh apples. We had to keep that possibility or probability in mind. We had to keep in mind also the financial difficulty; also the fact that in the Annapolis Valley in particular, all the eggs had been placed in one basket. After the establishment of the U.K. preference in 1932, the Nova Scotia growers, to a considerable extent, neglected markets which they formerly had on the continent of Europe and concentrated all their efforts on the United Kingdom market. Undoubtedly, it became for them a very great and substantial market. However, the information available to us seemed to indicate that it had passed its zenith and from now on it would be a market of definitely diminishing attractiveness. I might say that I noticed, à propos certain evidence by me which you quoted this evening, Mr. Fulton, an editorial in one of the Nova Scotia papers which said, in effect, that what the witness had said before the Senate committee was rather blunt but that everything he said seemed to be borne out by experience in Nova Scotia; that there was no question that if the growers of that province wished to retain their industry, they must grow red-cheeked coloured apples, rather than concentrate all their efforts on supplying a certain type of apple to one particular market which was certainly less valuable than it had been in the past.

By Mr. Jaenicke:

Q. What were the duties and what are they now?—A. Well, subject to correction by Mr. Kemp, we had a preference in the United Kingdom since 1938 of $\frac{3}{8}$, Mr. Kemp?

Three shillings a hundredweight and that did not apply to cider apples.

Q. There was no duty on cider apples, and what was the general duty on apples and the British preference?—A. Canadian apples entered free and foreign apples paid three shillings.

By Mr. Timmins:

Q. What is the position now?—A. There is no preference, apples are free from all countries.

Mr. JAENICKE: Oh, they are free from all countries?

The WITNESS: In other words, may I just add this, Mr. Fulton; we retained our free entry, but free entry is extended to all those who negotiated.

By Mr. Fulton:

Q. I would have to agree, Mr. McKinnon; obviously in your mind, the facts and figures do justify the conclusion to which you came, and I am saying that with all sincerity. I think you would also, perhaps, agree with me there is some question perhaps of the figures and of Great Britain's self-sufficiency based on this analysis of the figures you have just quoted. There were 15,000,000 trees, approximately, in 1944, we agree on that. Those are the figures?—A. Yes, in round figures.

Q. 5,000,000 or one-third were just coming into bearing in 1944, that is what it says?—A. That is what this authority says.

Q. So presumably that bearing should have been effective in 1945 and 1946, but in 1946 we were still exporting nearly one-fifth, over one-sixth of our total apple production to the United Kingdom; that is two years after the figures you have given. Furthermore, I think that article you read commenced by saying that the great increase in planting took place between 1929 and 1939?—A. That is right, sir.

Q. In the United Kingdom; so that of this, a substantial portion would have come into bearing by 1946. Yet, there is still a potential market for 1,151,000 barrels of apples from Canada to the United Kingdom. So, although I would agree on the basis of your figures and the British financial difficulty, that the market is less attractive to us than it was before, would you not agree with me there was some basis on which to conclude there is still an import market into the United Kingdom for apples?—A. Yes, I would, to that extent; certainly I do not contend that there is no market, but that it is a diminishing market. Consequently, in giving up the preference in the United Kingdom on apples, make every effort to get reductions in the rates on fresh apples and/or canned apples and/or dried apples and/or apple juice in France, Norway, Belgium, Holland, the United States and Brazil. Having given up what had been an important and substantial market under the preference but which, in our view, according to the best information we could get, was of diminishing importance and, indeed, in the immediate future perhaps of no importance, we felt we must get in return for the loss of that preference as much "apple-preference", if I may put it that way, in other parts of the world as we could.

Q. I wanted to come to the other part of your evidence before the Senate in which you referred to that. Again on page 43, Honourable Mr. McDonald asked you,

Just on that point, Mr. McKinnon, was there any pressure by the United States or any other nation as to the elimination of this particular preference?

Mr. McKINNON: No more pressure than was brought to bear by the United States in respect to many preferences.

A little further down, in the same answer, you say,

Naturally, in trading they put emphasis on particular preferences and this was one of eight or ten which received special consideration.—

A. That is true.

Q. Now, in the press release put out at the time these agreements referred to were published, at page 11, this statement is made.

Compensation for the apple concession is obtained mainly from the United States but it cannot be matched with any single item among the United States concessions.

A. That is right, sir.

Q. So, is it then the case that the United States attached particular importance to this preferential item and we went with them there, but we received, so far as this item is concerned, no similar consideration from the United States?

—A. Yes, I would say, Mr. Fulton, that it is perfectly fair to say we did not receive a specific quid pro quo in one commodity or one item for what we gave up in that preference but we did attempt to get as much as we could on apples, and, in the United States, we did get a reduction on apples.

Q. We also reduced our tariff against their apples.—A. That is true, but it still leaves us with a duty three times the height of the United States duty at this moment.

Q. Quite so, but proportionately I think our tariff against their apples was reduced more than their tariff against our apples.—A. I think that is true, but we did start with their duty very much lower than ours.

Q. About one-third?—A. About one-third. In fact, ours worked out at some 60 cents a bushel and theirs was 15 cents, so it was four times. They came down from 15 to 12¢ but they were reducing from a pretty low figure compared with ours.

Q. From 15 to 12½. Of course, their production is very much greater and earlier than ours?—A. That is true.

By Mr. Jaenicke:

Q. What is their exportable surplus compared to ours?—A. Would you know offhand, Mr. Richards, their exportable surplus compared with ours? Do you mean in percentage?

Q. No, bushels.

Mr. RICHARDS: I cannot answer that offhand.

By Mr. Jaenicke:

Q. They are our biggest competitor amongst the nations which signed the agreement. Is that right?—A. In respect of apples in the United Kingdom market I should say they were.

Q. Or any market?—A. I would think so, yes.

By Mr. Fulton:

Q. Have we had any substantial market in apples in those countries which you referred to as having given us concessions? You mentioned France, Belgium, and other European countries?—A. We used to have quite a substantial market on the continent largely through the free port of Hamburg, from which our apples found their way into the Netherlands, Belgium, Denmark and even into Norway. As I say, after 1932 the trade switched almost entirely to Great Britain, and we in a sense abandoned the European market. That was why we made a particular effort in each of those countries to get a reduction

not only in fresh apples but on canned apples, dried apples and apple juice, and although for a very considerable time we were greatly resisted, because some of those countries are now quite important apple producers, we finally got concessions in every one of them—some of which, in the opinion of our agricultural authorities, should be very valuable.

Q. Were those same concessions given to the United States by these same countries?—A. Oh yes, because the results will be generalized.

By Mr. Timmins:

Q. In the practical application of the matter now that we have lost the preference in Great Britain, and now that we cannot sell in bulk as we have been selling to Great Britain, how are our Canadian producers going to be able to sell in small quantities to Norway, Sweden and all these soft currency countries unless they do it on some sort of barter basis, because the people there will not have the money to pay for our apples.—A. In some of those countries undoubtedly there will be the financial stringency that prevails in the United Kingdom. On the other hand, prior to the development of the United Kingdom market, we had quite an important continental market that was entirely catered to by so-called private enterprise, in small lots.

Q. I am looking at the immediate future right now. I suppose if after two or three years world trade gets on its feet then the Geneva Agreement will start to work?—A. Yes.

Q. But until these soft currency countries get on their feet then the apple producers of Canada are going to be without a market—A. I think that is true to a great extent probably, Mr. Timmins, but would it not have been pretty much the same, in so far as concerns their reliance on the United Kingdom market during the next two or three years, in that Great Britain would not have had the money to buy apples?

Q. I am only trying to think out loud.—A. You are looking at the practical side of it, and I quite agree with you. We were not so greatly worried about the British Columbia apples when we were negotiating because of the extent to which the British Columbia people have pioneered, not only in their own market but in the United States market, with a pack and grade and attractive package that have put a premium on the British Columbia product. But we were particularly concerned about the Annapolis valley because, as Mr. Fulton showed in reading his statistics, their product is marketed to a great extent in barrels and went to a market in the United Kingdom that was particularly suited to them, in that they were bought in the barrel and sold in bulk by hucksters and the retail trade. We did hope that the Annapolis valley people could, under the low duty now prevailing in the United States, find an outlet in particularly the Boston area, where they should be able to surmount a duty of 12½ cents.

By Mr. Fulton:

Q. You realize, of course, that to some extent the reason why British Columbia, and I think to a lesser degree Ontario, have enjoyed the Canadian market is because the eastern producers have been shipping to the United Kingdom leaving the Canadian market largely free, and our growers in British Columbia, although they do a substantial export trade, and have not personally lost the mass market which the Annapolis valley has, are particularly worried because they are going to be in competition with Annapolis valley apples in Canada.—A. That may be true, but I think most disinterested people would admit that the British Columbia growers have done an extraordinary job in grading and selecting and packing their product.

Q. I certainly would not deny that.—A. To the extent that it seems to have built up for itself a consumer preference that is very definite and concrete.

An amusing illustration of the extent to which the British are determined to rely on their own production is shown in a conversation about apples that I had with a very prominent British official. I asked him in the course of it if he had ever tasted the Canadian northern spy. He said no, he had not, and asked if it was a good apple. I said that I thought it was one of the best apples in the world as far as a dessert apple went, particularly in the late winter. He said it might be but it could not compare of course, with Cox's orange pippin. I said that might be. He said, "Oh, no, there is no apple in the world like Cox's orange pippin, and shortly we are going to be supplying our own requirements for them." I believe that in British Columbia they are now developing the orange pippin.

By Mr. Hazen:

Q. It may not have the same flavour, though?—A. That is true, but I think you would have been surprised, had you been over there, at the confidence the British people have that they will to a very great extent supply their own requirements of apples.

By Mr. Fulton:

Q. I have one other question on apples. I notice again in the press release that Canada lowered her duty on United States apples—it is on page 12—to 37½ cents. The United States agreed to reduce its duty to 12½ cents per bushel and Canada agreed to a rate equivalent to 37½ cents per bushel for the period July 13 to May 19 inclusive. During the period May 20 to July 12 inclusive Canada agreed to admit apples free of duty. Does the United States agree to admit Canadian apples free of duty for any such restricted period?—A. No. Under the presidential powers the negotiators were not free to move an item from the dutiable to the free list.

Q. Even for a restricted period?—A. Even for a restricted period. The very best that we could do was to get as much reduction as we could, having in mind that our rate was four times theirs. About all they could gain from Canada was a concession in respect of their very early apples, before ours are really ready for the market.

Q. I am forced to say there that in the view of our growers that is one thing that spoils the market for them.—A. You mean free entry?

Q. Yes, these apples come in and take off the early market. They take the cream off the market for our early apples which are admittedly later than the United States apples. That has always been a very great worry in competing with the American growers.—A. Before we went, we got a good deal of advice on that point from the Horticultural Council and other authorities. We also conferred with the Department of Agriculture, and the feeling seemed to be that if free entry was restricted to a period ending not later than the 12th of July, there was very little, if anything, to fear from it. Now, it is quite true, of course, that in some parts of Canada—it might be the Leamington area or in certain parts of British Columbia—apples will be on the market at a very early date; but considering Canada as a whole, it is safe to say that the 12th of July is pretty well in advance of the Canadian production of apples.

Q. The point I wanted to make is not that they will be in competition with our apples in that period, but that to some extent the cream of any market is when people have not had apples for a month or two and they want to get apples and as apples come on the market they will buy them. I mean that that satisfies their appetite. If the Americans get that beautiful position on our market, growers when they come along with their first apples will find the Canadians are not so interested in apples as they used to be.—A. I have seen

these early American apples; but once I was able to get the yellow transparent or the St. Lawrence or something of Canadian production, the American variety was not very attractive. Those early U.S. apples come from a hot climate and I do not think they have the fibre or the flavour of our own apples.

By Mr. Jaenicke:

Q. They are only used for cooking; they are not eating apples.—A. I think the chairman has announced tonight that although an invitation went to the Canadian Horticultural Council to come and state its views about the Agreement, the reply was that it had no comments to make. I do not think, myself, I have been aware of a single complaint from anybody in the horticultural industry in Canada on this item. I had rather felt that on the whole, considering all the concessions we got—particularly in all primary products—the most serious loss we had suffered at all in payment for them was the loss of the United Kingdom apple preference, and that that probably had much less intrinsic or practical value than it appeared to have shortly before the war. I am not suggesting that we did not give up anything; of course we did.

By Mr. Pinard:

Q. Now, might I ask a question? We have heard a lot about B.C. apples and Annapolis apples and I have heard you mention the St. Lawrence apples, but I would like to know the effect of that abandonment of the preference as far as Quebec apples are concerned.

Mr. FRASER: And Ontario apples too.

Mr. PINARD: I am talking about Quebec apples now—Mackintosh apples and Fameuse apples; I would like to know how it is going to affect our market?

The WITNESS: We are getting into a pretty technical point with regard to apples and I wonder if the committee would mind if Dr. Richards of the Department of Agriculture answered that particular question.

Dr. RICHARDS: Mr. Chairman, I think Mr. McKinnon has answered nearly all of the questions with respect to Quebec apples. I believe that very few of them find their way into the export market. The Quebec apple is marketed mainly in Montreal and the large centres of population.

Mr. PINARD: I was told there was quite a proportion of Mackintoshes and Fameuses apples exported at least before the war. I do not know if this will have the effect of closing that market. If it has the effect of closing that market what will happen to our apples?

Dr. RICHARDS: It does not close the market; they will enter into competition with other apples.

Mr. PINARD: Do you know if, in fact, there was a proportion of those apples that were exported?

Dr. RICHARDS: Some of them were; but I think it was a small proportion of the total pack.

Mr. PINARD: And it is your opinion that this policy will not affect the growers in that district to any extent?

Dr. RICHARDS: Well, to no greater extent than other producers in other apple-producing areas in Canada. I think they will not be hurt.

Mr. PINARD: Do you know if there are any complaints from any growers' associations from that district?

Dr. RICHARDS: I do not know of any complaints.

Mr. FRASER: May I ask Dr. Richards about Ontario apples? Does this apply to Ontario apples?

Dr. RICHARDS: Ontario did export a considerable portion of its crop.

Mr. FRASER: Spies mostly.

Dr. RICHARDS: Spies mainly.

Another VOICE: They cannot supply Ottawa today, can they? Ontario cannot even supply Ottawa today.

Mr. FRASER: Mr. Chairman, before Dr. Richards sits down may I ask if in the Annapolis valley they are not going in now mostly for solid packing and marketing their apples in the gallon can?

Dr. RICHARDS: Yes, there is a great deal of that being done. As Mr. McKinnon said, we obtained a maximum reduction in United States duty on canned apples from $2\frac{1}{2}$ cents to $1\frac{1}{4}$ cents. We obtained a reduction on dried apples from 2 cents a pound to 1 cent a pound. Now, in Nova Scotia the growers do realize that they have got to put their house in order and there is a lot of work being done in the orchards now, removing the odd varieties and stop-working their trees. They have put in cold storage and started box packing and they are prepared to go into the markets other than the United Kingdom.

The WITNESS: In answer to Mr. Fraser may I follow up something Dr. Richards has said about the United States possibilities. The figures of the apple tree population in the United States are very interesting on this point. The United States Department of Agriculture statistical abstract for 1947 gives very interesting figures on the number of trees in the United States. They are as follows: apple trees, not bearing age, in 1920—I will use round figures—numbered 36,000,000; in 1930 they numbered 27,000,000; in 1940 they numbered 13,500,000. Trees of bearing age, for the same years: in 1920, numbered 115,000,000; in 1930, 89,000,000; in 1940, 58,000,000. In other words, it would appear that just as the trend is distinctly upward in the United Kingdom it is distinctly downward in the United States. Therefore, we went after everything we could get in the line of an apple reduction, whether it was the gallon apple, as they call it in the trade, the fresh apple, the dried apple or apple juice; and we got as Dr. Richards said, some very substantial, and often maximum reductions in the United States, apparently the number of trees has dropped steadily over the past twenty or thirty years.

Mr. GOUR: They have to come to Canada to see the splendid job we have done.

Mr. BLACKMORE: I wonder if I might ask Dr. Richards whether he has any figures which would enable him to compute the relative qualities of Canadian and United States apples in a general way; that is, is the quality of Canadian apples generally superior to that of the United States apples? Have you any opinion on that?

Dr. RICHARDS: I doubt if the United States grower would admit it, but we think our apple is every bit as good in quality as the United States apple, and our apples are selling in competition with theirs, and in past season I think we have sold close to two million boxes in the United States.

Mr. BLACKMORE: We can produce potato seed much more effectively than they can down there. Now, if there is a similar situation in respect of apples I would like to know it. If you have that information I would like to get it. Probably the answer you have given is all that you can give.

Dr. RICHARDS: Yes.

The WITNESS: May I interrupt to say to Mr. Fulton that while he was out of the room I put comparable statistics of the apple tree population for the United States with those of the United Kingdom. The statistics show a most striking decline in both bearing and non-bearing trees in the United States—from 36,000,000 non-bearing trees in 1920 to 13,000,000 in 1940; from 115,000,000 bearing trees in 1920 to 58,000,000 bearing trees in 1940. In some cases the figure

is almost cut in two, indicating that the type of apple grown in our more northern climate should find a very attractive market in the United States, particularly at the low rate of duty which prevails.

Mr. FULTON: Have you corresponding figures available to show the upward trend in the volume of our exports to the United States?

Mr. KEMP: There are two figures here, if I may interrupt. You will find them at page 100 of volume No. 2 of the Minutes and Proceedings of this committee. Those figures show exports from Canada to the United States of apples—green or ripe—in 1939 were valued at \$72,000. In 1946 the value was \$1,899,000 which is, I suppose, about 25 or 30 times as large a figure.

Mr. TIMMINS: If we are through with apples—

The VICE-CHAIRMAN: I do not know whether we are through with apples.

Mr. BLACKMORE: I would like to ask one question. We might be able to arise a certain kind of commodity successfully in a given area, but if the price of land is exceedingly high in that area it does not pay to raise that particular commodity in that area. I would like to know whether we have any figures which would show that United States land is much more costly than Canadian land and whether, therefore, it is likely to cost them more to produce apples than it is likely to cost us?

The WITNESS: I do not think we have any figures available here tonight as to the value of the land per acre. Dr. Richards may have a general idea of the relative value of apple-producing lands in the two countries.

Mr. RICHARDS: I would say the value of the land in the Wenatchee and Yakima apple-producing areas in Washington is higher—considerably higher—but I cannot say by how much, than the value of comparable land in the Okanagan. Their water rates are considerably higher, I believe, than the Canadian rates. I would not like without checking to estimate the cost of production in Canada as against that in the United States.

Mr. FULTON: I would like to follow up those remarks for a moment, and I appreciate that you may not have the figures available, but I know in areas in British Columbia orchard land—bearing orchard land—sells for as much as \$1,000 an acre. I would not have thought that in the United States it would have been very much higher.

Mr. RICHARDS: Yes, it has gone up.

Mr. FULTON: Someone might argue that the land is not worth that but that is what it costs?

Mr. RICHARDS: Yes.

Mr. QUELCH: Mr. Herridge raised a matter in the House which I would like to mention here. He asked whether since the British market for Cox's orange pippins has been lost to us at least temporarily, would there be any sale for those apples, or any demand for that type of apple in the United States?

Mr. RICHARDS: No, I would say it is not a popular apple in the United States, the Cox's orange pippin is one that was planted to supply the United Kingdom market.

Mr. QUELCH: Would you suggest that those growers should wait in the hope that the market will be regained, or do you think they should take immediate steps to go out of production of these apples and replace them with a more popular type of apple?

Mr. RICHARDS: That is a matter of opinion and difficult to answer. I think a production expert could give a better answer than I can.

Mr. QUELCH: I am wondering, in respect to what Mr. MacKinnon has said, would not that market reopen to us to a considerable extent after the dollar shortage is overcome? I have had complaints this last year about the

tremendous shortage of apples over there, from relatives over there. Apparently there is a shortage of apples in England today, due no doubt to the shortage of American dollar exchange.

The WITNESS: I don't know, Mr. Quelch. It is possible that when conditions return to what one might call normal there may still be a substantial market. I don't know. The best information we could get was that all the indications seemed to show that Britain would in most varieties and for most purposes be self sufficient in apples.

Mr. QUELCH: You said that only one third of this new planting would come into production this year, or next year—was it?

The WITNESS: We also have to keep in mind that during the war undoubtedly they had to abandon a lot of trees and not give them the attention and the fertilizer they normally would give.

Mr. FULTON: Can you tell me if any effort is being made to establish a market for United Kingdom apples in Europe?

The WITNESS: No. Dr. Richards is shaking his head. My information is there is not.

Mr. BLACKMORE: One of the reasons I asked the questions I did, I would like to say this; there must be some reason why the production of apples in the United States is apparently declining. It probably is that they are finding they are unable to compete successfully with apples from other countries. Well now, if that is the case, and if the inability is based on permanent factors, then we have considerable hope for a substantial market in the United States.

The WITNESS: Mr. Blackmore, undoubtedly we felt when evaluating the loss of the United Kingdom preference, that in the United States we might have a market of growing importance; that the United States market was something Canadian growers could not disregard. It seemed to us that there could be and probably would be a very important market in the United States for Canadian apples once the duty was down to the point where export trade to that country was attractive.

Mr. FULTON: We have had it suggested that probably the consumption of apples is dropping even more rapidly—

The WITNESS: May I add Mr. Fulton; of course, every year we see more and more oranges coming into Canada but it does not seem to affect the consumption of apples in this country.

Mr. FRASER: I think perhaps Mr. Richards would bear out what I have to say; that is with regard to the drop in the period between 1920 and 1940; that perhaps in 1933, owing to the sub-zero weather which ruined our apples, at least in Ontario and Quebec, that was a factor.

Dr. RICHARDS: Yes, I think that is so.

Mr. FRASER: That would have some bearing on that?

Dr. RICHARDS: I have statistics on the number of our bearing apple trees, if that would be of interest to the committee.

Mr. FRASER: Does it cover a substantial period? It was in 1933, as I recall it; that we had sub-zero weather. I know in my part of the country it went to 55 degrees below, and pretty nearly every apple tree around was ruined.

Dr. RICHARDS: Now, these are for the years 1921, 1931 and 1941, the number of trees.

The WITNESS: Dr. Richards, that is practically identical with what I gave, because I gave it for 1920, 1930 and 1940.

Dr. RICHARDS: I used those years for that purpose. A number of trees on farms, of bearing age—that is 10 years or over; in 1921, 9,422,000; in 1931,

8,304,000; in 1941, 4,248,000. Then, not of bearing age, that is under 10 years; in 1921, 2,561,000; in 1931, 2,085,000; in 1941, 2,317,000. Now, I can give you the total: The total for 1921, 11,983,000; for 1931, 10,389,000; for 1941, 8,510,000. I might say that the number of non bearing trees in the United Kingdom I estimate which are now coming into bearing are greater in number than the total number of trees in Nova Scotia, in the Annapolis Valley, bearing and non bearing.

The WITNESS: Did you say, bearing and non bearing?

Dr. RICHARDS: Yes.

Mr. BLACKMORE: Did Dr. Richards' figures show where that apparent decline took place?

Dr. RICHARDS: I haven't a provincial breakdown. That could be obtained. There was, as Mr. Fraser said, a large loss during the winter 1934-35 in Ontario and Quebec.

Mr. FRASER: During the freeze?

Dr. RICHARDS: Yes, and that is where the main reduction occurred.

Mr. FRASER: Whole orchards were wiped out entirely?

The VICE-CHAIRMAN: Gentlemen, it is ten-thirty, and if we are through with apples, we might ask Mr. McKinnon to come back and take up another subject at the next meeting.

Mr. TIMMINS: I wondered if I could put a couple of questions to the witness which could be taken up at the next meeting?

The VICE-CHAIRMAN: Yes.

By Mr. Timmins:

Q. Would I be correct in saying that you would be carrying on negotiations with a country, such as France, and you would be working out a sort of bi-lateral schedule?—A. That is right, sir.

Q. With concessions from France and concessions which were received from Canada?—A. That is right, sir.

Q. Then, you would enter into negotiations with another country such as Belgium and you would have a two-way schedule?—A. That is right.

Q. Then, you compiled them altogether?—A. Yes.

Q. Then, I am wondering if we could find out, with respect to a number of items in which I am interested and other members may be interested in quite a number of items, as to how the markets in the various countries are open to Canadian products in respect of such items as the following: axe heads; asbestos; laundry machinery; automobile parts; aluminum products and electrical appliances. In other words, could you prepare to tell us whether we have had an even tariff arrangement with each of these countries or whether they are up and down with respect to those various countries in respect of those commodities?—A. In each country, Mr. Timmins, we would get a reduction of the tariff of that country. In some instances, of course, the generalization of the benefits all around means we get an opening for this or that commodity in all the countries. If you do not mind, if we could take the record of tonight's proceedings and go through that, Mr. Kemp, I am sure, could tell you not only the precise answer to that question, but if we are asked here at the next meeting—

Q. Those are the items which interest me, but there may be other items in which other members are interested?—A. We could tell to what country was attributed every item in schedule V; that is, what country negotiated for that particular item and got it.

Q. That is it. I am interested in those few items in the meantime?—A. Mr. Kemp could get out of the record those items as soon as we get a rough draft of it.

Mr. JAENICKE: Before we close our meeting, are we going to have a steering committee meeting before the next meeting of the whole committee?

The VICE-CHAIRMAN: If the chairman would only come back.

Mr. JAENICKE: I do not see why you could not do it. I should like to discuss some invitations which were sent out.

Mr. TIMMINS: We have had a very interesting discussion on apples, but we could not possibly spend as much time on these other subjects as we have on apples.

The VICE-CHAIRMAN: I think that would be a good suggestion. We might have a meeting of the steering committee tomorrow afternoon or Monday.

Mr. TIMMINS: Make it tomorrow if you can.

The VICE-CHAIRMAN: Tomorrow afternoon. Would that be convenient?

Mr. JAENICKE: Yes, that would suit me fine.

The WITNESS: Could the committee let us know whether or not on Tuesday you would prefer to proceed with this discussion of the schedules or go back to the general provisions that Mr. Deutsch deals with?

By the Vice-Chairman:

Q. Will he be back?—A. I think he will be back, but we can go on with either the schedules or revert to the other.

Mr. BLACKMORE: We are all interested in the schedules now. We had better follow that up.

The VICE-CHAIRMAN: What is the pleasure of the committee?

Mr. BLACKMORE: I should like to go on for a time.

The WITNESS: It will help us to prepare the information if we know whether you want us or Mr. Deutsch.

Mr. BLACKMORE: I should like to hear two or three discussions like tonight. Then we will be tired of it and can go on with the other.

The VICE-CHAIRMAN: The meeting is adjourned until Tuesday.

The committee adjourned to meet again on Tuesday, May 4, 1948.

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SESSION 1947-1948
HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

Subject-matter of the General Agreement on Tariffs and Trade,
including the Protocol of Provisional Application thereof,
together with the Complementary Agreement of
October 30, 1947, between Canada and the
United States of America.

TUESDAY, MAY 4, 1948

WITNESSES:

Mr. H. B. McKinnon, Chairman, Canadian Tariff Board;
Mr. J. J. Deutsch, Director of Economic Relations Division, Department
of Finance;
Mr. A. E. Richards, Department of Agriculture;
Mr. W. J. Callaghan, Commissioner of Tariffs;
Mr. H. R. Kemp, Director of Commercial Relations Division, Department
of Trade and Commerce.

OTTAWA
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PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY

1948

ERRATA

The penultimate paragraph of Minutes of Proceedings of Tuesday, April 13, 1948 (appearing on page 24) should be corrected to read as follows:—

Reverting to the matter of printing documents tabled, and on motion of Mr. Timmins, it was *resolved* to print as appendices "B" and "C" respectively, the Principal Tariff Concessions affecting Canadian Products obtained through the General Agreement on Tariffs and Trade, and Statement showing the British Preferential and Most-Favoured-Nations rates in effect on July 1, 1939, and on January 1, 1948, and to ask leave to increase to 2,000 copies in English and 500 copies in French, the number of copies of this day's Minutes of Proceedings and Evidence.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, ROOM 429,

TUESDAY, May 4, 1948.

The Standing Committee on Banking and Commerce met at 8.30 o'clock p.m. Mr. G. Edouard Rinfret, presided.

Members present: Messrs. Argue, Benidickson, Black (*Cumberland*), Blackmore, Breithaupt, Dechene, Dorion, Fleming, Fraser, Fulton, Gour (*Russell*), Harris (*Danforth*), Hazen, Irvine, Jackman, Jaenicke, Jutras, Macdonnell (*Muskoka-Ontario*), MacNaught, Marquis, Pinard, Probe, Rinfret, Timmins.

In attendance: Mr. H. B. McKinnon, Chairman of the Tariff Board, Mr. W. J. Callaghan, Commissioner of Tariffs; Mr. R. Cousineau of the Tariff Board; Mr. J. J. Deutsch, Director of the Economic Relations Division, Department of Finance; Mr. Hubert R. Kemp, Director of Commercial Relations Division, Mr. Louis Couillard, Commercial Relations and Foreign Tariffs, Mr. A. L. Neale and Mr. G. C. Cowper, of the Department of Trade and Commerce; Mr. A. Richards of the Department of Agriculture.

The Committee resumed consideration of Schedule V to the General Agreement on Tariffs and Trade negotiated at the Second Session of the Preparatory Committee of the United Nations Conference on Trade and Employment, held at Geneva from April 10 to October 30, 1947.

Mr. H. B. McKinnon was called. The witness filed for distribution to all members of the Committee the following document:—

LIST OF TARIFF ITEMS AND SUB-ITEMS in respect of which the margin between the British Preferential rate and the Most-Favoured Nation rate has been eliminated as a result of the tariff concessions made at Geneva, in 1947.

Mr. McKinnon was further examined and retired. During the interrogation, Mr. J. J. Deutsch, Mr. W. J. Callaghan and Mr. Hubert R. Kemp answered certain specific questions.

Dr. A. E. Richards, of the Department of Agriculture was called, and filed with the Committee certain statements which had been requested.

On motion of Mr. Timmins,

Resolved,—That the statements filed by Dr. Richards be printed as appendices to this day's Minutes of Proceedings and Evidence, namely,

Appendix "A"—Memorandum: Apple Production and Exports, Canada and the United States 1935 to 1938.

Appendix "B"—Memorandum: Value per Acre of Farm Land and Buildings in Canada and the United States and in British Columbia and Washington.

Appendix "C"—Memorandum: Numbers of Apple Trees and Acreages in Orchards, by Provinces.

The witness was retired.

After discussion, it was agreed that the next meeting would be held on Thursday, May 6, 1948, at which time Mr. J. J. Deutsch would be in attendance and the Committee would proceed with the study of the Final Act.

It was further agreed that the Committee would meet at 10.30 o'clock a.m., on May 11, 1948, to hear representatives from the Fisheries Council of Canada.

At 10.30 o'clock p.m., the Committee adjourned to meet again at 8.30 o'clock p.m., Thursday, May 6, 1948.

ANTOINE CHASSÉ,

Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

May 4, 1948.

The Standing Committee on Banking and Commerce met this day at 8.30 p.m. The Vice-Chairman, Mr. G. Edouard Rinfret, presided.

The VICE-CHAIRMAN: Gentlemen, the meeting will come to order. Mr. McKinnon will continue on the schedules as we started them at the last meeting.

Mr. H. B. McKinnon, Chairman of the Tariff Board, called:

Mr. JAENICKE: Mr. McKinnon was standing up for nearly two hours the last time, Mr. Chairman, could you not do something?

The VICE-CHAIRMAN: I suggested that he sit down but he prefers to stand.

The WITNESS: I will begin standing. When the committee rose at the last meeting you will remember that we had been on the schedules pretty much all of the evening. At the conclusion of the meeting there were two or three requests for further information, one of which was from Mr. Timmins, asking if we could, without too much trouble, prepare a short statement of the items on which the preference had been eliminated as a consequence of the discussions at Geneva. I replied at that time that I thought the story could be told very quickly by looking at the schedules, because we showed in the schedules which are now included in the large volume of the proceedings of the committee, report No. 2, the present British preferential rate and the present most favoured nation rate and, in the next column, the proposed preferential rate and the proposed most favoured nation rate. It would be obvious—from looking at the items—where the preference had disappeared. However, Mr. Timmins thought it would be useful to the committee if the members could have set out in a short form the particular items. We have prepared such a statement and we have brought sufficient copies to hand around to the members. While the statement is being handed around I could perhaps say a word. The members of the committee will notice that the statement is headed "list of tariff items and sub-items in respect of which the margin between the British preferential rate and the most favoured nation rate has been eliminated as a result of the tariff concessions made at Geneva, in 1947." Mr. Timmins particularly seemed to have in mind something that was concise and easily seen. Therefore, we did not clutter the statement up with the present or the proposed rates. These are in the schedule to which I have referred.

Mr. JAENICKE: At page 151.

The WITNESS: Yes, of the large report.

Mr. TIMMINS: Yes.

The WITNESS: We extract here the item—the tariff number; a key word—just an indication of what the article is—and the country to which the concession is attributed. In other words this is a list of ninety-four or ninety-five items on which the margin of preference was eliminated. It may be that the members of the committee would want to run through this list and ask questions about particular items.

Mr. HARRIS: Is there much point in Mr. McKinnon talking about "the proposed rate"? The proposed rate will be the rate, or otherwise the entire Geneva trade pacts fall. Mr. Chairman—

The VICE-CHAIRMAN: Yes.

Mr. HARRIS: When you are disengaged—I am asking you a question?

The VICE-CHAIRMAN: I am sorry.

Mr. HARRIS: Oh, it is all right, but Mr. McKinnon emphasizes the words "proposed rates", as opposed to the rates in effect at present. If the proposed rates do not carry then the whole Geneva pact falls. Therefore, I do not think, Mr. Chairman, that it helps very much to emphasize the words "proposed rates". After all, sir, you as chairman must realize the Geneva trade pacts are something of which many of us are proud. We are proud of the work done over there on behalf of Canada, but at the same time—and I put the question to you as chairman of the committee—are we not after all just holding a post mortem on what has transpired after study by our own efficient members? That study occupied almost a year and then there was in addition seven months' study in Geneva and elsewhere. These men are bringing back their results and are we not after all just holding a post mortem on what they did? The "proposed rates" have been emphasized by the witness before the committee, but if they do not carry the entire pact falls by the wayside.

The VICE-CHAIRMAN: As I understand this it is a document filed by Mr. McKinnon just now, and this particular post mortem has been provided at the request of some honourable members of the committee.

Mr. HARRIS: I appreciate what you say, Mr. Chairman, but in the statement made by my good friend Mr. McKinnon—an acquaintance of over twenty years—he used the words "proposed new rates—" and most of his depositions up to the moment have been phrased in that way. I was only using this moment or two of time to interpolate something which I have in my mind. After all we are just holding a little post mortem.

Mr. MACDONNELL: Would you not properly say after birth, rather than after death?

The WITNESS: I suppose, Mr. Harris, that I used the words "proposed rates" just because of the habit of mind of a civil servant.

Mr. HARRIS: Oh, if I had known that I would not have spoken.

The WITNESS: I really used the phrase because of the fact this has not yet gone before the House. As far as I am concerned it is only the proposed rate, but you are quite right in thinking that if any particular item were changed it would probably result in inability to proceed.

Mr. HARRIS: I quite understand that.

The WITNESS: Are there any questions on this particular list?

By Mr. Macdonnell:

Q. Can you give a rough idea of the amount involved?—A. The rates?

Q. No, the amount of trade involved?—A. The amounts of trade involved, Mr. Macdonnell, are shown in the large document to which I have referred, at page 152 of Report No 2.

Q. Very good.

Mr. FULTON: Which large document is that?

Mr. MACDONNELL: It is before us now.

The WITNESS: Yes.

By Mr. Timmins:

Q. What does this mean on page 2 where you have listed item No. 312, the second item from the bottom of the page, asbestos, not crude—U.S.A.?—A. The concession was requested by the United States and the negotiations on that particular item were conducted with the United States. Therefore the reduction in rate or the concession is attributable to the United States.

Q. As I understand it we are one of the large producers in the world, in so far as asbestos is concerned?—A. That is right, sir.

Q. The British preferential rate ran in what way?—A. To get over Mr. Harris' point, the British preferential rate before we went to Geneva was 15 per cent and the most-favoured-nation rate was 20 per cent. Now the most-favoured-nation rate has been reduced to 12½ per cent and therefore the United Kingdom, being a favoured nation, will get the same rate—12½ per cent, but there is now no margin of preference between the two rates.

Q. That means the United States is going to get asbestos from us just as easily as is Great Britain?—A. It is the other way. This is our tariff. This is the rate in our tariff. These are preferences in the Canadian tariff which have been eliminated.

Mr. JAENICKE: But the rate—

The WITNESS: Might I anticipate you there, Mr. Jaenicke? Prior to Geneva, anything imported under this item under the British preferential tariff would have paid 15 per cent. From the United States it would have paid 20 per cent. Now they are both paying 12½ per cent.

Mr. JAENICKE: Mr. Timmins mentioned that we were exporters of asbestos but we increased our imports from 1939 to 1946 by 100 per cent.

Mr. JACKMAN: We imported fabricated asbestos but exported raw asbestos.

The WITNESS: We are one of the greatest exporters of crude asbestos.

By Mr. Timmins:

Q. You are speaking for instance of Johns-Manville products?—A. That is right; processed products.

Q. We export raw material but bring back the fabricated material?—A. We export some of both, but we are very heavy exporters of crude asbestos.

By Mr. Fulton:

Q. Where the word "Benelux" is used throughout the document does it include Belgium, the Netherlands, the Dutch East Indies possessions, and so on?—A. Yes, I think so. Mr. Deutsch can probably confirm this. The provisional application does not apply to the colonial possessions but is applied to the metropolitan areas. In the negotiations proper, the Benelux countries, Belgium, Luxembourg, the Netherlands, represented all their territories including their colonies.

Q. I imagine when that schedule comes into effect these items Nos. 20 to 25 would be very substantial—coffee, cocoa? When we include Belgium and the Netherland territories they would be pretty heavy suppliers.—A. They are tremendous producers of cocoa in all its forms, and as the largest supplier to this country normally they were entitled to ask for the concession and to argue for a reduction of the rate.

Q. They are normally the largest supplier?—A. Normally. They are very large suppliers and, in some forms of cocoa, the largest.

Q. From what British Empire country do we also obtain cocoa and chicory?—A. We get cocoa from the British West Indies but chicory came almost entirely from foreign sources.

Q. Do you anticipate any change in the channels of trade as the result of this elimination of the empire preference on those items?—A. It is hard to predict that. I should think that Benelux, in securing this concession and paying something for it, anticipated a bigger market in Canada for cocoa products—that is cocoa butter, cocoa paste, etc. On the other hand, each one of these concessions was discussed with the Commonwealth areas at Commonwealth meetings and these three items, were approved by the United Kingdom and the Colonial office on behalf of the Colonial possessions.

By Mr. Hazen:

Q. Would there be any pressure brought to bear on the Colonial office to accept this proposal? What was the position of the British West Indies, themselves, do you know? Were they agreeable?—A. All I can say, Mr. Hazen, is that not only were they represented through the Colonial office but the British West Indies had their own delegates at Geneva the entire time. They sat in on the negotiations; and scores of times, our delegation consulted the British West Indies delegation direct as well as through the Colonial office.

Q. Do you know whether they objected to it?—A. No. I should think the final decision as to whether or not all the parties concurred in a concession was made during discussions between the Colonial office and the British West Indies. In every single reduction we have made, we conferred with the British West Indies delegation.

After all, they kept in mind that one of the most vigorous drives we had was by Cuba, for a reduction of duties on sugar. We did not reduce the sugar duties. We kept in mind the British West Indies interest and the fact that, for some years, the British West Indies had been trying to make a new agreement with Canada, which may involve other matters, such as shipping. We therefore refused to reduce the rates on sugar. The British West Indies appreciated that very much.

If you look at item 152, you will find that although the United States pressed for a reduction on every type of fruit juice, we made a reduction on lime juice, orange juice and passion fruit and resisted the United States demand for a reduction on grapefruit juice because that was of prime importance to the British West Indies.

I am giving two illustrations out of many where, time and again, in direct contact with the British West Indies group, we took cognizance of their representations. I do not know of a single item to which they have raised any objection or did raise any objection before we left Geneva.

By Mr. Fraser:

Q. May I ask a question on that point? You mentioned grapefruit juice. If that is combined with orange juice, what happens then?—A. That would be under what is called N.O.P. item, Mr. Fraser. It is not shown in this particular list, if I remember correctly.

Q. It comes in free, does it?

Mr. JAENICKE: 10 per cent.

The WITNESS: The preference is not eliminated. It is not shown in this list.

Mr. JAENICKE: According to this list it is eliminated, page 160.

The WITNESS: It is contained in the N.O.P. portion, Mr. Jaenicke. You will find the present rates—

Mr. JAENICKE: It is not shown on this list.

The WITNESS: Yes, but Mr. Jaenicke, that does not alter the fact that there is, in the tariff, an item peculiar to the West Indies which admits orange juice and grapefruit juice and blends of orange and grapefruit juice, free. All that we have done here is to reduce the most-favoured-nation rate on "list prices, N.O.P." to 10 per cent.

Mr. JAENICKE: Why is that not in this list?

Mr. CALLAGHAN: Because the item is not in the agreement. The preference will be in another item.

By Mr. Fleming:

Q. Does most of our grapefruit juice come from the West Indies or the United States?—A. It varies from year to year. The United States and the West Indies have both been very heavy exporters to Canada. In recent years the Texas product has forged very much to the front. It was for this reason the United States particularly pressed for a reduction on grapefruit juice. During the war, we had been importing heavily from the West Indies, which had set themselves up to cater to this market. They were giving up their margins of preference on several other things and, therefore, we declined to make a reduction on grapefruit juice, retaining the full preference for the West Indies.

By Mr. Jaenicke:

Q. This statement on page 150 and the following pages, does that not contain all the items under the British preference?—A. It contains every item that was included in the schedule at Geneva.

By Mr. Blackmore:

Q. What is the nature of the protection against sugar coming in from Cuba. Is the \$2.30 valuation on imports retained?—A. The duty varies with each degree of sugar content as shown by the polariscopic test, and varies also with the Dutch standard of colour. It is a tremendously complicated thing. The preference is in the neighbourhood of a dollar per 100 pounds. For example, on raw sugar of 96 degree test, the preferential rate is, roughly, 28 cents and the most-favoured-nation rate is, roughly \$1.28. The polariscopic gradation follows all the way through from 78 to 79 degrees polariscopic content to 98 or 99 degrees.

Q. What I was wondering about was the fixed valuation for import purposes. It was fixed at \$2.30. Has that been retained?—A. No, that has not been effective for a long time.

Mr. CALLAGHAN: Not since about 1938 or 1939.

The WITNESS: It has not been on for some years. That was an arbitrary valuation imposed upon the import of Cuban factory sugar, so-called refined.

By Mr. Blackmore:

Q. Suppose such sugar were again to present itself next fall, would we be in a position to do anything about it?—A. So far as the rate of duty goes, there is not a single sugar item bound in the agreement other than by means of the declaration it is not the intention to raise the rates of duty. I think, probably, you are wondering whether the arbitrary valuation could again be resorted to?

Q. That is right.—A. I do not think it could, under the agreement.

Q. Would that mean our sugar producers would be exposed to Cuban granulated sugar as was the case before?—A. The only protection would be that afforded by the rates of duty. It would not be possible, under the Geneva agreement, to resort to the type of valuation which was used some years ago.

Q. Was the duty on the valuation of the sugar a percentage duty?—A. No, it is a specific duty.

By Mr. Fulton:

Q. Has Mr. McKinnon placed before the committee the number of items on which the preference was not eliminated and the number of items remaining?—A. I can give that to you in round numbers. Of about 2,000 items in the tariff, if we include all the sub-items, 1,050 were dealt with at Geneva. Of the 1,050, the most-favoured-nation rate was reduced on about 600, and the most-favoured-nation rate was bound on the other 400.

Now, that leaves about 1,000 items not dealt with at Geneva at all which, of course, includes quite a number of items which are free across the board as well as a few items on which the rate in both columns happens to be the same.

Q. I was thinking, Mr. McKinnon, you have told us here of the 94 items on which formerly there existed a British preference and that preference was eliminated and brought into line with the most-favoured-nation rate. Can you tell us the items on which the British preference still exists?—A. No, we should have to go through the tariff and count them.

Q. Could you give us an approximation?—A. I should think, offhand, 500 or 600 items at least on which there is still a very definite British preference.

Q. Can you also give me some of the more substantial items so we will have an idea of the sort of thing you mean?—A. On which there is still a British preference?

Q. Still a British preference?—A. Yes. Practically all the way through the textiles items almost all of them. There are very, very few items in the textiles schedule—which comprises I should say off-hand between 75 and 100 items—on which there is not still a preference, and in most cases a quite substantial one. The same thing applies to almost the entire list of iron and steel products. It applies to a great portion of the chemical group. It applies to paints and varnishes, pharmaceuticals—in other words, to the extent that there was a preference through our whole tariff, it is amended in some 600 items and eliminated in 94 items, out of a total of about 2,000.

Q. I thought you said there were 1,500 items on which there was a British preference?—A. There are about 2,000 altogether, of which we dealt with a thousand at Geneva. There are many that we did not deal with at Geneva and they are still as they were when we went to Geneva and still carry the preference.

Mr. FLEMING: Just for convenience could I put in the record here; Mr. McKinnon did give information on this point on page 207, of our proceedings where he said:—

There are between 1,800 and 2,000 items and sub-items in the Canadian tariff. Of those 1,800 items 1,050 are included in this schedule. Of the 1,050, 600 represent a reduction, and 400 are binding on the present rates. Therefore, with respect to the 800 or 900 items not bound in this schedule, the Canadian parliament is free to do as it desires.

The WITNESS: That is right, Mr. Fleming; any item that was not dealt with at Geneva is still entirely free in so far as any tariff action by Canada is concerned.

Mr. JACKMAN: Do I understand that the purpose we are pursuing at the moment is to discover why the various items in this list are there? Unfortunately, I was away last week.

By Mr. Timmins:

Q. I asked the question I did to see whether anything was being lost under the change in the British preference.—A. I understood Mr. Timmins to mean that he would like a simple list of preferences eliminated. This is the list.

By Mr. Jackman:

Q. May I ask why fresh meat and veal, the first item, has had the preference eliminated; and, at the request of the U.S.A.; in view of the fact that we are an exporting country on fresh beef and veal rather than an importing country?—A. That would be precisely why it was done, Mr. Jackman. The United States was reducing its duty from 6 cents a pound to 3 cents a pound at the special request of Australia.

Q. Australia?—A. Australia is the biggest supplier in the world, along with the Argentine. By reason of the most-favoured-nation clause we get the benefit of that. In other words, we get the benefit of a reduction from 6 cents a pound to 3 cents a pound in the United States rate; therefore, we were satisfied to do as we did in the case of many other items, to make the rates identical.

Q. But that did not originate with us?—A. No, but the result is that our meat will be able to go into the United States at the 3-cent-a-pound rate, and when last we enjoyed a 3-cent rate we exported something over 50,000,000 pounds a year. At a time when the quota on live cattle might be completely filled and when our packing plants might have meat that could be exported, we would benefit by this 50 per cent reduction in the United States rate, this could be of great potential value to our packing industry. We offered, therefore, to make the rate reciprocal in our tariff. The same thing applies to live hogs and many agricultural products.

Q. You say it was attributed to the U.S.A. I would take it from your explanation that it was requested by Australia and conceded by the U.S.A.?—A. If this were a United States list they would show it attributed to Australia; since this United States concession to Australia redounded to our benefit, we have attributed any readjustment to the United States.

By Mr. Fulton:

Q. Can you tell us whether in the case of meat when it comes into the full operation it would be possible for us to maintain our quota of 400,000 cattle, or maybe 400,000 tons of cattle, could they still go in for that quota?—A. Yes, Mr. Fulton, we secured at Geneva an increase in the cattle quota from 225,000 head to 400,000 head at the same rate as existed prior to that.

Q. What rate would that be per head?—A. That would be at the rate of $1\frac{1}{2}$ cents per pound under the quota, a rate regarded as quite favourable; and we were able to secure an increase in the quota.

Q. Was that under 92, on live cattle?—A. No, in our agreement with the United States in 1938, we had secured a rate of $1\frac{1}{2}$ cents.

Q. That would not be classed as a quantitative restriction?—A. No. Mr. Fulton, because it is not an absolute quota; it is a tariff quota, which makes possible a reduction in the rate, provided it is within the quota.

Q. There has been no reduction in the total, 400,000 head?—A. No.

Q. And it may go over that at the higher rate?—A. That is right, sir. Instead of being held down to 225,000 head we can now export 400,000 head at the $1\frac{1}{2}$ -cent rate, and as many more as we like at full rate.

Mr. JACKMAN: On 3(a), starch N.O.P.; is that tapioca, or just manufactured starch?

The WITNESS: Item 39 (i) is potato starch, etc.; Item 39 (ii) is cornstarch. There is a very small reduction there, from $1\frac{1}{2}$ to 1 cent.

Mr. JACKMAN: That is cornstarch?

The WITNESS: Yes.

By Mr. Macdonnell:

Q. If it is not covering ground which was covered when I was not here last week, would it be helpful if we could see a summation of the money involved? Would it be helpful if you were to make a calculation which would indicate the value of the British preference which still remains in relation to the quantity of trade involved? I am not suggesting that you should give it now. You can give it later on. I thought, to me at any rate, it would be very illuminating if I knew how much was affected, how much is not changed?—A. You mean, by reason of these eliminations?

Q. Yes.—A. We could total up the preference trade in each of these 94 items.

Q. I wanted more than that, I wanted to see how much there was apart from these items which are still standing in effect; in other words, to get the picture of how much of the whole, of the total trade still carries the preference, and how much would have ceased to carry the preference because of the recent negotiations, and showing the result. I think if we had the money amounts it would give me at any rate a better idea of the relative importance.—A. All we did in this table, Mr. Macdonnell, was to show the total trade on each item in the schedule.

Q. I suppose it is because I don't want to do it myself, I want someone to do it for me.—A. The easiest way would be to total the ones on which the preference was eliminated and subtract them.

Q. You can do it better than I can.—A. We can do it.

Q. For what period?—A. For any given period.

Q. What I am after is the picture of the change, what change has been made by reason of what has been done in the last eighteen months.

The VICE-CHAIRMAN: And what the percentages are?

The WITNESS: We have already shown it for two years, 1939 and 1946.

Mr. MACDONNELL: The totals?

The WITNESS: The totals.

Mr. FLEMING: That would be sufficiently representative for the purpose of this.

The WITNESS: Mr. Fleming, that is the reason why we put in the two years; 1939, prewar—normal, if you like; and the other year, 1946, under present conditions.

By Mr. Fleming:

Q. This is a breakdown of your total figures and it will assist us in understanding the total dollar value in each case. It shows that?—A. The total dollar volume of imports.

Q. The information that you have just given as to the items in the Canadian tariff, that answer of yours on page 207, which I read a moment ago, covers that?—A. Yes.

Q. Can we get the particulars for the whole thing?—A. It will be quite a job to go through them and total them up for all the items of the tariff.

By Mr. Macdonnell:

Q. I do not want to ask you to do the job if the figures I have asked for are available somewhere else.—A. I think we can extract it for you.

The VICE-CHAIRMAN: Are there any other questions of Mr. McKinnon?

The WITNESS: You will see an interesting recap. on page 187 of the proceedings of April 13th. You will notice there we show for the two years the total imports under schedule 5 items. Have the members all found that on page 187? The imports, under schedule V items—that is the items dealt with at Geneva—in 1939 were \$580,000,000 and in 1946 were about \$1,483 million. Total imports of all goods into Canada for the same two years were \$750,000,000 and pretty close to 2 billion, respectively and the percentage of total imports covered by schedule V is about 77 per cent in each year. About 77 per cent of our import trade is represented by the Geneva schedules.

By Mr. Fleming:

Q. In connection with these totals would you be able to give us an estimate of the probable loss in customs revenue to Canada? Is that a figure that it is possible to estimate?—A. It can be estimated but it is not a very realistic figure. No one can tell whether a reduction from 4½ cents a pound to 4 cents is going to increase imports greatly or not. There would be occasions when a

reduction from 4 cents to 2 cents would not make a particle of difference because the 4 cent rate may have been relatively low and no impediment to trade. On the other hand, a reduction from a rate of 45 per cent to one of 25, might make all the difference in the world in the imports. I think you would agree with me it is a very difficult thing to estimate, and even if estimated it would be little more than a guess because it is hard to tell to what extent and in what direction, and particularly on what items, the flow of trade, the volume of trade, may be altered.

Q. Probably one should not ask you to do that. Probably just for the sake of information we might have what the reductions would represent so far as loss of revenue is concerned as it was in those two years that you are working on, 1939 and 1946. Probably we should not ask you to go beyond that.

By the Vice-Chairman:

Q. Does that give a fair picture?—A. It is pretty hard to estimate. There are hardly any two items—that is an exaggeration—in the whole tariff that are the same. You have got an endless number of combinations of rates. You have got compound duties consisting of specific and ad valorem. It would be extremely difficult, and I would not like to put my name to the estimate, because I think it would be very unrealistic. This may be some indication of what you have in mind and the information you are seeking to get. Prior to our going to Geneva the average rate of duty, if I may put it that way, on United States goods imported into Canada—and I am talking only of dutiable goods and excluding the free altogether—as a percentage of the value was about 22 per cent. If you take the total dutiable imports and calculate the total duty paid on them, the latter as a percentage of the former was 22 per cent. My own guess, and it is purely a guess because of the very factors I am stating to you, would be that now as a result of Geneva our average duty, if I may call it that, on dutiable goods from the United States would be somewhere in the neighbourhood of between 18 and 20 per cent. Even that does not give any indication of the loss of revenue because so much depends upon the extent to which trade may change.

By Mr. Fulton:

Q. It is possible it might increase the revenue?—A. Conceivably. On many items, even where the reduction in the rate was small there might be a considerable increase in trade; there might conceivably be more revenue.

By Mr. Blackmore:

Q. Can you give us an idea to what extent the fixed valuation device was used on Canadian imports? We have sugar as one example. were there a considerable number of others?—A. Yes, there were; under various sections of the Customs Act, particularly Sections 40 and 41, 43, 43(a). The Governor in Council, or the Minister of National Revenue, has in the past been empowered in certain instances to fix value for duty purposes on a more or less arbitrary basis, and that device was employed some years ago to a considerable extent. In our agreement with the United States in 1935, and again to a further extent in 1938, Canada undertook not to resort to that type of valuation, making reference to specific sections of the Customs Act. At Geneva the slate was cleaned in that sense, in that resort may not be had at all to arbitrary valuation. As Mr. Deutsch explained in his evidence, the 23 countries at Geneva agreed upon a uniform principle of valuation. This principle is that the value for duty shall be the actual value; the article goes on to define actual value and says that if the actual value cannot be determined it shall be the nearest equivalent thereto and, to cope with dumping, in no case less than the cost of production plus a reasonable profit. Within that general principle, if Canada subscribes to this agreement, Canadian legislation will have to lie.

By Mr. Jaenicke:

Q. Did they not act this afternoon? Is not the bill they introduced this afternoon to cover that point?—A. I did not know that such a bill was introduced today.

Q. That is how I understood the explanation of Dr. McCann's bill to amend the Customs Act.—A. That is what it will be. I did not know it had been introduced. The Customs Act in Canada, just as it must be in the United States, has to be amended to bring it into conformity with the Geneva principles, and apparently from what you say, the Minister has already introduced the bill.

Q. We will likely have it in the mail tonight or tomorrow morning.—A. I did not know it had been introduced.

Q. It had first reading this afternoon.

By Mr. Timmins:

Q. On page 3 of this little schedule you have given us the first 12 items have to do with metal products?—A. Yes, sir.

Q. And are all concessions attributable to the United States?—A. That is right.

Q. Previously Great Britain had a preference on bringing those goods into the Canadian market, I presume?—A. Yes.

Q. What is the significance of these losses of preference to Great Britain, and why did they come about in this way with concessions in each case to the United States?—A. In most of these items—I would not say every single one—the United States is the principal source of supply. We import more from the United States than from any other country. Therefore they were entitled to argue for a reduction, as the principal source of supply. In quite a number of these cases Great Britain had little, if any, interest at all. Offhand I would say that on Items 362(a), 424(a) and 435(a) she had little or no interest. On the others she had a very definite interest; but, as part of negotiations leading to a mutually satisfactory agreement, the United Kingdom consented to the elimination of her preference on each one of those items. On the other hand, through all the primary products of iron and steel, starting with pig iron and carrying right through and including all rolling mill products, we reduced rates on very few items.

Q. We want all those.—A. We have a big industry, and we contended, when pressed by the United States—as we were on almost every single item in the schedule, which contains at least 300 items—that our rates were already so low as compared with theirs that it was not just to press us for anything, and we resisted. But when we reached items covering processed goods—such as this copper or brass wire under Item 351—we knew that we have an extraordinarily efficient brass and copper industry in Canada.

Q. A growing industry.—A. A growing industry, and one that has been exporting to various parts of the world; one that is extraordinarily efficient. As regards the retention or loss of the preference, I do not think it made a particle of difference to our industry. Their chief competition, such as it was, was from the United States, and members will notice that on most of these the reduction is not a drastic one. On Item 351 it is fairly heavy, from 27½ to 20; and the next one is from 24¾ to 20. On tin plate, Item 383b, occurs the solitary instance of an increase in the British preferential rate, in the entire agreement. I indicated the other night in general terms the British attitude in this respect: They were not prepared to send us in plate within the near future; they did not know whether they would ever regain their market in Canada, because of our own tremendous capacity; and they no doubt felt that the tin plate preference in this country was not worth very much to them. If I might refer to apples again, Mr. Fulton, their reaction in respect of tinplate was somewhat the same as our own in respect of the apple preference in the United Kingdom: It was not a thing to be sold at a great price. They apparently did

not care if we reduced the most favoured nation rate to free or increased the British preferential rate to 15. We felt we could not reduce the former to free, because we could not withstand duty free competition from the world market on tinplate, and the only way to eliminate the preference was to raise the preferential rate. The United Kingdom concurred, presumably because they had practically written off this market with regard to tinplate.

Mr. FULTON: With regard to these ten items, it amounts to a concession to the United States, it is not a blow to any trade with the United Kingdom?

The WITNESS: That is generally true; and in every single case the United Kingdom concurred in the reduction.

By Mr. Timmins:

Q. Are any of these twelve items prohibited from coming into Canada by reason of the austerity program?—A. To the extent that these are consumer goods—Mr. Deutsch would know more about that. I imagine that some of them, Mr. Deutsch were on the prohibited list?

Q. I was looking at page 3, the first twelve items.

Mr. DEUTSCH: I believe one or two of them may be on the prohibited list, and others, Mr. McKinnon, like aeroplane engines and parts, will be under permit.

By Mr. Fleming:

Q. May I turn back to another interesting subject, that of margarine. We have from Mr. Deutch, at page 206 of our proceedings an interpretation given as to our obligation now with the general agreement in effect and the obligation that we will face after ratification of the general agreement. Now, I want to be entirely fair with you and I would like to read the reference at page 206 of the evidence of this committee. There were some questions I asked Mr. Deutsch on this point. After dealing with the three embargos—that is to say, those on margarine, used cars and used aeroplanes—I go on and say:—

Forgetting for the moment the application of the balance of payment article what is the status of these embargoes today on those three specific commodities?—A. They are in force.

Q. Which is in force, the embargo or the general agreement?—A. The embargo.

Q. The embargo is still in force?—A. Yes, and since these embargoes are embodied in our legislation we are not required to remove them because it would be inconsistent with our existing legislation. All we have done by signing provisionally is to do everything we can within our existing legislation.

Q. Do I interpret that correctly when I suggest that in view of what you have said there is no obligation on Canada under this agreement either legally or morally to remove these embargoes?—A. Not as long as it is provisionally in effect. When it is brought finally into effect then we must bring these embargoes into line with the provisions of this agreement.

Q. How?—A. By changing the legislation.

Q. Then that would mean that the embargo would have to go?—A. Yes.

Q. We are bound by this agreement?—A. If parliament approves it.

Q. When ratification of the general agreement comes about we are undertaking a legal obligation here to remove the embargo on margarine, used cars and used aeroplanes?—A. As far as this agreement is concerned, yes.

Now, as to the effect of the provisional agreement, Mr. McKinnon, was that the interpretation you put on the Geneva agreement when it was signed?—A. Absolutely as regards the provisional application of the General Agreement there is no doubt, because we only undertook on behalf of the government, to bring it provisionally into effect to the extent it was not inconsistent with existing legislation, which meant that while by order in council the rates of duty could be reduced, it would require legislation to bring certain parts of the agreement into effect. That had to be done when it comes finally into effect. I agree entirely with Mr. Deutsch's interpretation.

Q. You say then that while the agreement is provisionally in effect there is no obligation on this country to remove an embargo on the importation of margarine. What about what happens after ratification?—A. If our parliament approves the agreement, we have undertaken an obligation to bring our legislation into conformity with the principles in the agreement.

Q. Mr. McKinnon, there is a passage in the evidence given by yourself in the Senate Standing Committee on Trade Relations that bears on this point, and I had a little difficulty in following it. Perhaps you would not mind if I read it to you for your clarification. It appears on pages 136 and 137 of the proceedings of that committee. I will read enough of the passage to give you the essence of it. They are speaking here of the ban. Then Mr. Couillard says:—

Mr. COUILLARD: As far as I know, the actual provision by which a country may not impose a ban on a commodity was not changed. The general rule still obtains. There were however certain exceptions to the general rule both under Geneva and under Havana texts and some of them, although not fundamentally changed, were given an interpretation such as the type I spoke of earlier; that is, interpretative notes and records of meetings now exist which permit the prohibition of certain commodities which were not previously covered in that way.

The CHAIRMAN: On margarine?

Mr. COUILLARD: On margarine, yes, sir.

The CHAIRMAN: It is merely an interpretation of what was done at Geneva.

Mr. COUILLARD: There was made at Havana an addition to Geneva Article 18, in the form of an interpretative note, which taken with article 45, now makes it clear that the embargo on margarine can be maintained.

The CHAIRMAN: That is not in accordance with the views of the negotiators at Geneva, or the intent of the agreement made there. Mr. McKinnon can answer that question.

Mr. McKINNON: Mr. Chairman and honourable senators, I should like to say that at Geneva the matter of prohibition of imports was discussed in very general terms. There was provision for the usual standard type of the health of animals, etc. Margarine, in respect of the Canadian situation, was definitely discussed qua margarine.

The CHAIRMAN: Did you ask the participating countries to make an exception of margarine?

Mr. McKINNON: No, I don't think we asked them to make an exception of margarine, Mr. Chairman, but the matter of margarine came up, because some of the participating countries were aware of the ban on margarine in the Canadian legislation.

The CHAIRMAN: The United States, for example?

Mr. McKINNON: Certainly; and others were interested, particularly some of those who would be potential suppliers of vegetable oils to this country. They were aware of this ban. The general view undoubtedly at the end of Geneva was that the article in the General Agreement to which Mr. Couillard has referred would not in future permit the continuance of the prohibition.

The CHAIRMAN: And you signed the agreement in good faith with that understanding?

Mr. McKINNON: The leader of our delegation, of course, was the only one who signed. There was no question in the minds of the Canadian delegation—

The CHAIRMAN: And it was so understood by the other countries.

Mr. McKINNON: —as such. I would not want to impose my interpretation, Mr. Chairman, as to what was in their minds, but I would say that in my opinion most countries that were interested in that particular question understood that in consequence of the General Agreement, Canada could not continue the ban on the importation.

The CHAIRMAN: And that was your own understanding?

Mr. McKINNON: That was certainly by own understanding.

The CHAIRMAN: Thank you.

Mr. McKINNON: Now, as Mr. Couillard says, I am given to understand that since the Geneva agreement was tabled the matter has been referred to the Department of Justice, and that the Department of Justice has ruled or given an opinion that, under certain articles of the Geneva agreement, in particular if two articles are read in conjunction, it would be possible for Canada to continue to prohibit the importation of margarine.

The CHAIRMAN: But that was not your understanding of what was intended?

Mr. McKINNON: As a negotiator, and as a layman, it was definitely not my understanding, nor do I think it was the understanding of any member of the delegation. But those members of this committee who happen to be lawyers will readily understand that legal experts differ in their interpretations of statutes, or what may become statutes, and I am told that the Department of Justice is of the view that, even despite the Geneva agreement, it is permissible, if Parliament wishes to do so, to continue the ban on the importation of margarine.

I think probably I have read enough of the passage and you will recall your evidence.—A. Yes, I recall it very clearly.

Q. Would you clarify that passage for us?—Q. I am prepared to repeat what I said then. As far as I am concerned—and I was in charge of negotiations in so far as tariff negotiations went—when I left Geneva it was my understanding—and I am certain it was the understanding of Mr. Deutsch and I am pretty sure it was the understanding of everybody on the delegation—that under this agreement as it was when we left Geneva it would not be possible after the coming into force of the agreement to continue the ban on the importation of margarine.

Mr. MARQUIS: Provisionally coming into force?

The WITNESS: There was never any question about “provisionally”. We do not have to hurry about it until parliament adopts the agreement. When parliament adopts the agreement and is prepared to bring it fully into force, parliament then has to face up to the situation of amending the legislation. That aspect never bothered me. The question was put to me, as a negotiator, whether the ban on the importation of margarine was prohibited and I had to say “yes”, because in my opinion it was. As I stated in my evidence, I

understand that the problem has since been referred to the Department of Justice, and that legal experts there have taken the view that if you read together two particular sections of the agreement—I am now in Mr. Deutsch's field, but you have asked me the question because of the evidence given by me before the Senate—if you read together two particular sections of the Agreement it would still be possible to prohibit the importation of margarine. That is what Mr. Couillard meant when he said this point was clarified at Havana as far as the charter is concerned, because of an interpretative note inserted in the Charter—not in the Agreement, because they were not working on the agreement—which would make it possible for Canada to continue the ban on the importation of margarine. Not being a lawyer, I am not competent to say that I agree or disagree; I am told the legal opinion is that, in spite of the agreement, the prohibition may be continued.

Mr. FLEMING: May I summarize that by saying—

Mr. MACDONNELL: May I ask a question there. Do I understand at Havana something quite apart from the legal interpretation took place? There was an addition to the mutual understanding by way of a footnote which you have now mentioned?

The WITNESS: I had better bring Mr. Deutsch into this because he was at Havana and he knows that subject. It was dealt with by way of a footnote in Havana.

Mr. MARQUIS: Could you read that footnote?

Mr. DEUTSCH: At Havana an interpretative note was specifically inserted in a section of the charter called "interpretative notes" which covers this as well as some other points. The note reads:—

Any internal tax or other internal charge, or any law, regulation or requirement of the kind referred to in paragraph 1 which applies to an imported product and to the like domestic product and is collected or enforced in the case of the imported product at the time or point of importation, is nevertheless to be regarded as an internal tax or other internal charge, or a law, regulation or requirement of the kind referred to in paragraph 1, and is accordingly subject to the provisions of Article 18.

This means, as I understand it that if you have a law which applies equally to a domestic product and to the importation of the like product and that law is enforced at the point of importation, that enforcement at the point of importation shall be permissible. In other words if we say that no one in Canada is allowed to possess or to sell margarine and if that is the law—

Mr. MARQUIS: That is the law.

Mr. DEUTSCH: That is exactly the law. Suppose we pass a law whereby no one is allowed to sell or possess margarine. That would apply to the product whether it is domestically produced or imported. Regardless of the source from whence it comes if no one is allowed to possess margarine and if measures are taken to enforce the law as far as importation is concerned—

Mr. MARQUIS: That is the law which exists now.

Mr. DEUTSCH: If you were to enforce that law by preventing importation such a case shall be considered to be within the rules of this charter.

Mr. FLEMING: Has that clause been sent to the Department of Justice for an interpretation?

Mr. DEUTSCH: No.

Mr. FLEMING: So what you are giving is your own interpretation of the footnote?

Mr. DEUTSCH: Yes.

Mr. FLEMING: How did that note come into the Havana agreement?

Mr. DEUTSCH: It covers three or four things. It covers the question of internal taxes and internal charges and regulations and laws of all sorts. A number of countries had laws and situations which were quite within the general spirit of this agreement but there was some doubt as to whether they could be maintained unless this interpretive footnote was inserted. That is the ground upon which the note was put in and margarine is covered incidentally.

Mr. TIMMINS: There were no specific items?

Mr. DEUTSCH: No.

Mr. FLEMING: At whose suggestion? Did Canada have any part in the suggestion that there should be such a footnote?

Mr. DEUTSCH: No, I believe the suggestion as I remember it came from other sources. I am speaking of the actual necessity for a footnote of this kind.

Mr. FLEMING: Was the question of the Canadian law with reference to the importation or the sale of margarine one of the subjects discussed in connection with the footnote?

Mr. DEUTSCH: Of course our delegation had in mind the position of margarine and if countries generally were agreeable to such a footnote or such an interpretive note being inserted for general reasons then of course—

Mr. MACDONNELL: You did not feel badly at having it put in.

Mr. DEUTSCH: We did not feel badly at having it inserted.

Mr. FLEMING: Did the Canadian delegation seek that footnote?

Mr. DEUTSCH: I might go back a bit. At Geneva the Canadian delegation did seek, under instructions, a provision in the agreement which would not require us to remove the ban on margarine.

Mr. MARQUIS: Pardon me—oh well I will not interrupt.

Mr. DEUTSCH: We specifically asked for a provision which would enable us to maintain the ban on margarine but at Geneva we did not succeed.

The WITNESS: That is why I said, in the evidence which you read Mr. Fleming, that margarine qua margarine was discussed.

Mr. FLEMING: You said that at Geneva you understood you were committing yourself to the removal of the ban.

Mr. DEUTSCH: The fact is at Geneva we tried specifically to get a clause enabling us to maintain the ban but we were not able to get the other countries to agree and therefore we had to take the agreement as it was arrived at at Geneva.

Mr. FLEMING: Quite. The next step is the interpretation made by the Department of Justice which is to the effect that Canada under the Geneva agreement is not obliged to remove the ban. Then, you went to Havana. Did you seek, at Havana, inclusion of that footnote in order to clearly bring the situation into line with the opinion of the department of Justice?

Mr. DEUTSCH: On that point, I should say this footnote was proposed by several countries for various reasons.

Mr. FLEMING: Was Canada one them?

Mr. DEUTSCH: We did not propose the text originally, but as soon as it was proposed, we were quite aware it covered margarine. We were quite happy to have it.

Mr. FRASER: Who gave you instructions from here?

Mr. DEUTSCH: We took our instructions from the government.

Mr. FRASER: What department of the government?

Mr. DEUTSCH: We received instructions from the government, as such.

Mr. MARQUIS: If I remember correctly, Mr. Deutsch, the other day you said when the agreement was final, the government would be obliged to repeal the ban on the importation of margarine. In the light of what you said a few minutes ago, as the law prohibits the importation and the fabrication of margarine, I do not see why parliament would be obliged to repeal the clause imposing that ban on the importation and fabrication of margarine?

Mr. DEUTSCH: You remember, when we discussed that at the previous meetings I said specifically and with a purpose that, so far as the Geneva agreement was concerned, that was correct, as we understood it, Mr. McKinnon.

Mr. McKINNON: That is right.

Mr. DEUTSCH: Now, the Department of Justice has examined this from a legal standpoint, and I am not competent to speak on the legal correctness of their interpretation. When I said, so far as this agreement was concerned—I was very specific on this—I did not cover by that, the changes made by the Havana charter.

Mr. JAENICKE: Did you not know of them then?

Mr. DEUTSCH: Yes. The footnotes have nothing to do with the Geneva agreement. I went on to explain that there is a provision in the agreement which provides for the supersession of a number of clauses in the agreement by the Havana charter and until that supersession has taken place, it has not yet taken place, the agreement is the thing which stands.

Now, when the supersession takes place—we do not know when that may be—it may be a year or two from now.

Mr. FULTON: What has to happen before the supersession takes place?

Mr. DEUTSCH: The countries which signed the Geneva agreement have to agree that the supersession shall take place. They are going to meet next summer, in August, and they will discuss the question of supersession. Until they have agreed, until that supersession takes place, this agreement stands and, therefore, this footnote only comes into effect when supersession takes place. Suppose that all happens. Suppose the countries agree that supersession shall take place. If it does take place, then, of course, the agreement would no longer require the abolition of the prohibition.

Mr. MARQUIS: If I understand correctly, when you had these discussions with the other delegates you and your colleagues understood that margarine was protected and that we should abolish the prohibition on the importation of margarine. You understood that, after having a discussion with your colleagues. However, as the law stands, as the sections are drafted, you cannot give a legal interpretation on the point?

Mr. DEUTSCH: I cannot, no.

Mr. MARQUIS: And the legal interpretation from the Department of Justice is to the effect that the importation of margarine can be prohibited even when the agreement is finally adopted. Is that so?

Mr. DEUTSCH: That is what I am informed the legal experts have decided.

Mr. MARQUIS: This is your opinion?

Mr. DEUTSCH: Yes.

Mr. MARQUIS: As long as the agreement is not finalized, the prohibition can be maintained?

Mr. DEUTSCH: Yes, we have always made that clear. We have always said so long as it is provisionally in force, we do not have to change our existing legislation.

Mr. GOUR: I just want your own view and not the view of a lawyer. I understood the last time I asked the question that a country which had an embargo—we are talking about margarine, but there are lots of embargos. Many

countries have embargos against many things such as used cars, aeroplanes and margarine. You have said many times when I was here that if our parliament accepts this agreement, it will be about two years or two years and a half before the agreement is in force. However, when it does come into force as passed by parliament, it will be the obligation of every country to take off these embargos.

However, if Canada says no one shall be permitted to have margarine in his possession or sell it, then we will be able to put a tariff on it. We will be able to put a tariff on any of these things which are prohibited, any kind of tariff, without discrimination by the other countries who are of this group. We will be permitted to put on a tariff, we will say for a joke, of \$3 a pound on margarine.

Mr. MARQUIS: It is not a joke.

Mr. GOUR: It is a joke because you are buying butter now and blaming the farmer because he gets a little bit. In past years you bought it for 25 cents or 30 cents, the price of axle grease. It will be possible to put a tariff on those things. When this agreement is passed, the government in power and the members of it will decide there should be a tariff of 50 cents a pound or 75 cents a pound on margarine. Therefore, there will be no discrimination against any country in this group.

Mr. MARQUIS: I understand, Mr. Deutsch, we can put heavy duties on these products but we can keep on prohibiting the importation of margarine according to the legal interpretation of the Department of Justice. Is that not so?

Mr. DEUTSCH: There are three things which have to be kept in mind. So long as the agreement is only provisionally in force, we can maintain the embargos we now have. The second point is, when the provisions of the Havana charter supersede the provisions of the agreement, then the maintenance of the ban on margarine would continue to be permitted.

Mr. MACDONNELL: How do you know that the Department of Justice will not say this footnote does not mean what it says just as they said the other did not mean what it says?

Mr. DEUTSCH: I am not a lawyer, I cannot say. Mr. McKinnon, who was in charge of negotiations refused to bind the duty on these three items, margarine, used cars and aeroplanes. Therefore, as this gentleman has pointed out, the government is perfectly free to put on whatever duties it wishes on those three items without, in any way, breaking the spirit or breaking any undertaking in this agreement.

Mr. FULTON: Can you tell me this; during your discussions at Havana or any other conversations you have had with the contracting parties or any of their representatives, what was their view of the interpretation placed on the agreement by our Department of Justice?

Mr. DEUTSCH: The matter, Mr. Fulton, has not been specifically referred to them so far or discussed with them, so I could not answer that question.

Mr. FULTON: What is the view, supposing we leave out altogether the Department of Justice's interpretation which says, even under the agreement we can maintain the ban, leave that out, surely the contracting parties or the parties to the Havana charter would not consider it necessary for Canada to remove the ban under the agreement. When the charter supersedes the agreement Canada could maintain it. In other words, has it not all, perhaps, become rather academic because the contracting parties, in view of the charter and the footnote, would not insist we remove the ban, even though we may be bound to by the agreement?

Mr. DEUTSCH: I think that is a very good point, Mr. Fulton. If it seems that the supersession of the Havana provisions will take place fairly soon then it would seem a very sensible thing not to change the law for a few months and then put it back to where it was originally. I think your point is very sound,

that it is highly academic in that sense; if indeed the supersession will take place—we don't know that for certain yet—but if that seems to be the case I do not think we would be pressed to make a change which ultimately will not be required.

Mr. FULTON: We certainly would not be pressed to do it until it becomes apparent that supersession—

Mr. DEUTSCH: Would not take place. That is right.

The VICE-CHAIRMAN: Now, gentlemen, shall we revert to schedule 5, and the evidence that Mr. McKinnon was giving and see if we can finish with it tonight?

By Mr. Timmins:

Q. I asked Mr. McKinnon a question with respect to coal. Page 3, item 586, the British preference with respect to anthracite coal was lost?—A. Yes.

Q. And that was attributed to the U.S.A.?—A. Yes.

Q. I suppose it was at the instance of the U.S.A. that the preference was dropped, was it, Mr. McKinnon?—A. Yes.

Q. Does that apply also to blower coal as well, or only specifically to anthracite coal?—A. That is a matter of customs interpretation, Mr. Timmins. They do include the word "anthracite", anthracite coal of certain sizes down to, I think, screenings. Mr. Callaghan, you may know more about that. It would be the blower coal you are talking about?

Q. Yes.—A. That would undoubtedly—unless it is an extremely small size. It is in this item.

Q. That preference on the blower coal to Canada is lost forever so far as the British preference is concerned?—A. I would not say—

Q. I mean, you can't get the preference back again under Geneva?—A. Britain has foregone her preference on that commodity.

Mr. CALLAGHAN: It covers coal down to and including buckwheat No. 3, and barley.

Mr. TIMMINS: You said buckwheat No. 3?

The WITNESS: That is, down to screenings.

Mr. CALLAGHAN: Down to and including buckwheat No. 3, and barley.

By Mr. Timmins:

Q. We do go below the British preference rate in respect to our operations—A. You mean on anthracite?

Q. On anthracite.—A. No. It was free. The British preference rate was free, the most favoured nation rate was 50 cents a ton.

Q. I see; then, that having come off, does it affect British coal in Canada at all?—A. I would not undertake to answer that very well, because it is entirely up to the trade.

Q. In other words, the United States are getting their anthracite coal in free now where it was not free before?—A. That is right, sir; but then we ourselves had to pay the duty, and I would think that in most cases the importer would pass on the reduction.

At the last meeting of the committee Mr. Timmins asked for particular information regarding concessions secured by Canada from the various countries—I think you included all the countries at Geneva—in respect to certain lines of commodities which you put on the record.

Q. That is right.—A. Mr. Kemp and his colleagues have prepared the answer to that. It is extremely voluminous and it is just a question of whether you would care to have it yourself or whether the committee will decide to have it on the record. You may wish to examine it. Mr. Kemp has it here. It is extremely long because he has prepared information with respect to each of the commodities you

mentioned; exactly the concessions secured in each of the countries; and since the tariff structure, classifications, nomenclature and so on varies in the several countries it is a very voluminous document. If the committee wishes, of course, it is available and can be put on the record.

Q. Could we have a look at it and ask you a few general questions?—A. You might wish to call Mr. Kemp and follow up Mr. Timmins' request on that. Mr. Fulton asked at the last meeting if Mr. Richards had any information regarding the relative values of orchard land in Canada and the United States. Mr. Richards did not have it at the time, but since the committee appeared interested in that he has dug up a lot of information on it and is prepared to put that also on the record, if the committee so desires. Mr. Blackmore also was interested in the relative values of orchard land.

By Mr. Hazen:

Q. Does the Geneva agreement in any way affect importations of Japanese goods in to this country?—A. No. In the first place Mr. Hazen, Japan was not represented at Geneva and did not negotiate. In the second place, although prior to the war Japan had favoured nation treatment, she lost that as a consequence of the war and has never been restored to her.

Q. Are we free now to fix such tariff as we wish to against Japanese goods coming into this country?—A. As long as Japan remains in the state where she is not subject to favoured nation arrangement it would be open to parliament to put whatever duty it wished against Japanese goods.

Mr. MARQUIS: If a peace treaty is signed, what would be the position of Canada?

The WITNESS: It depends on whether or not Japan then either asks for the restoration of most favoured nation status or is free to ask for it, at which time Canada would have to consider the request.

Mr. MARQUIS: It would depend on the conditions in the treaty?

The WITNESS: That possibly would be a matter to consider.

Mr. HAZEN: The reason I asked the question was because I had seen an item in the *Vancouver News Herald* which said that the Japanese are back on the Canadian market and back by benefit of U.S. dollar financing. It goes on to say that an importer of Japanese goods in this country can get all the American dollars he wants from the Foreign Exchange Control Board to buy goods in Japan. The article ends up by saying; your United States dollars go round and round building up in Japan an industry which may disrupt the steady progress of key Canadian industries.

The WITNESS: I do not know as to the accuracy of that report. That would have to be answered in the first part by someone from the Foreign Exchange Control Board. But any Japanese goods coming into Canada would not get favoured nation rates.

Mr. MARQUIS: Do we import Japanese goods through a channel in the United States?

The WITNESS: That would depend on whether or not the United States content would meet our content requirement. I would not say for a moment that if some material which had originated in Japan had entered into the economy of the United States and had been processed into something that became in fact a United States product, it might not come in that way; but there would be very few cases of that. But Japan does not get the benefits of the most favoured nation rate; she does not come under this agreement at all.

By Mr. Jackman:

Q. Would this be an appropriate time to ask Mr. McKinnon what negotiations, if any, took place in regard to the export of books written and published in Canada to other countries?—A. That is Mr. Kemp's end of it. We made few changes, if any, in the Canadian tariff because most of these goods are free, including even periodicals.

Q. Coming into Canada?—A. Coming into Canada.

Q. The reason I raised the question is this. I suppose all members received a circular today from some Canadian organization which inveighed against the rule prohibiting the export of Canadian books into the United States because they would infringe the American copyright laws. Did any discussion take place in regard to helping Canadian authors circulate their books, particularly in the United States, free of tariff or free of any infringement of American copyright?—A. I will defer to Mr. Kemp on that. To my memory, there was no discussion on copyright; whether or not there was a discussion as to the rate of duty on printed matter is something that I will ask Mr. Kemp to answer.

Mr. KEMP: I think I can answer that very briefly, Mr. Jackman. Under the general practice that was followed at Geneva, countries negotiated on possible tariff concessions with the principal suppliers of the article in question. The United States, for example, pursued the general policy that if it was contemplating reducing its tariff on anything in particular it would negotiate only with that country that was regarded as the principal supplier to the United States of the commodity in question. Thus if they were negotiating on shoes it would be with Czechoslovakia. If they were negotiating pulpwood it would be with Canada, and so on. With regard to the supply of books to the United States I am not aware that Canada is now or ever has been the principal supplier of books to the United States. Therefore we would not have any status at Geneva to negotiate with them with regard to the duty on books, and so far as I am aware the subject was never discussed with them by us.

Mr. TIMMINS: Could we ask Mr. Richards to put on the record the memorandum which he has prepared in respect of orchards?

The VICE-CHAIRMAN: Provided it is not too long. I was hoping we might finish with Mr. McKinnon tonight on schedule 5, but we have been interrupted. Mr. Richards, is that statement very long?

Mr. RICHARDS: No, sir.

Mr. TIMMINS: I suggest we put it on the record. Then we can all have a look at it in the record and ask questions next day.

The VICE-CHAIRMAN: Will you do that?

Mr. RICHARDS: There were two other questions raised in the committee at the last meeting that I was not able to answer from memory. I refer to the question on the export of apples from the United States as compared with the export from Canada. I have that information on a single page and can give it to you. I also have a breakdown of the numbers of bearing and non-bearing trees by provinces to give the committee. I can give that.

Mr. TIMMINS: Do they run into a number of pages?

Mr. RICHARDS: All on single sheets.

Mr. TIMMINS: Are there three or four?

The VICE-CHAIRMAN: There will be three sheets altogether.

Mr. TIMMINS: I think we should put them on the record.

The VICE-CHAIRMAN: Is it the wish of the committee that they be put in the report? (Agreed).

(See appendices "A", "B" and "C")

Mr. JACKMAN: Do I understand from Mr. Kemp that because Canada was not the principal supplier of books to the United States we were not at liberty to raise that question at Geneva?

Mr. KEMP: That is the case. We could have raised it, but their practically invariable practice was that they would negotiate only with the principal supplier of an article, and there was a good reason for that. If they were negotiating with the principal supplier, he was the one who was most likely to make them a substantial concession in return, if I may put it that way. If, for example, Great Britain was the principal supplier of books then Great Britain would be much more likely to make them some reciprocal offer than would some minor supplier. We ourselves followed very much the same principle when we were negotiating with other countries although we did not do it invariably. Generally speaking we preferred to negotiate with the country which was the principal supplier to us.

Mr. JACKMAN: Of course, Canada has a particular interest, not only because of the amount of books we might supply the American market, but because of the inevitable trend of our promising young authors to locate themselves in the United States. It is the human export which in many ways is more important than the physical export of printed matter. Therefore I should think we might have some status on that account which might be of more importance than that of the United Kingdom which might be the greatest supplier in physical volume. Perhaps you have already given the answer to this, but did the United Kingdom raise the question of more favourable treatment of its books in the United States than it now has? Joined to that question, does Great Britain suffer under the same disabilities as far as tariff and copyright are concerned on its books which enter the United States as does Canada.

Mr. KEMP: I should have mentioned earlier that we did, in fact, get quite a substantial concession in the United States on bound books although I do not think it was attributed to us in the negotiations. My recollection is it probably was attributed to the United Kingdom, but you will find on page 104 of the proceedings for the second meeting of the committee that on bound books of all kinds of foreign authorship, not elsewhere specified, there is a reduction from 15 per cent under the Smoot-Hawley rate of 1930 to $7\frac{1}{2}$ per cent in 1946 and 5 per cent at Geneva. Imports into the United States from Canada in 1939 were worth \$17,000 and in 1946 they were worth \$108,000.

With regard to the copyright question we have been working on material probably rather similar to what some of the gentlemen here have seen. We have made a rather hasty examination of the situation, and without professing to be a copyright lawyer I will try to give you our present understanding of the situation. As I understand it under the United States copyright law you can take out a sort of provisional copyright in the United States of a work which has not been published in the United States, but in order to get that copyright made permanent you must, within four months of the original arrangement, publish it in the United States, and if you do not publish it in the United States you lose your copyright.

Suppose that you had a copyright in the United States and you published the book in the United States and got your permanent copyright there. If copies of that copyrighted book were then imported into the United States from abroad, I understand that even though you have got your copyright on a permanent basis the copyright would be forfeited. In other words, they seem to have a rather rigorously protective arrangement with regard to the copyright on books in the United States. In order to get and retain that copyright you must publish the books in the United States and you cannot bring them in from another country.

The organization which I understand has written to you is interested in the sale of reprints. The situation so far as we can understand it is this, that the reprint society has a copyright in Canada for some of these books, and

they wish to have the privilege of shipping these books from Canada into the United States, where somebody else owns the copyright. There are apparently two obstacles in the way of their doing it. In the first place they obviously could not do it without the consent of the copyright owner in the United States. Secondly, even if they had succeeded in getting the consent of the copyright owner, they are still confronted by the provision which we understand exists in the United States copyright law which says that the copyright owner in the United States, even if he were to give his consent to this importation, would forfeit his copyright to the author by doing so. This is the best information we have been able to get so far.

By Mr. Jackman:

Q. May I ask Mr. McKinnon whether there is any possibility under the Havana agreement or under subsequent negotiations with regard to international trade of envisaging where Canada may bring up the question of copyright with regard to the export of books from Canada to the United States?—A. If there were such subsequent negotiations there would be no reason in the world why we should not bring it up.

Q. Are they on the schedule now?—A. All I have heard of that was the statement by the Minister of Finance on the night of the 17th of November: that the government hoped to see wider economic co-operation between the two countries; but to my knowledge there has been nothing since; and I would think at the moment it is improbable because of the congressional situation in the United States, the election year, and so on.

By Mr. Jaenicke:

Q. I thought copyright was a matter of international convention like patents.—A. That is true. We can only bring it up and present our side of the case; but I took Mr. Jackman to mean that we might do that and we might also seek a reduction in the rate of duty. There I think Mr. Kemp has given the answer, that unless we were either the largest supplier or a very big supplier we would probably not succeed in getting any further reduction; and as Mr. Kemp showed, the rate of duty has been reduced from 15 to 5 per cent.

By Mr. Jackman:

Q. Do we apply rates of duty against their books coming into Canada as they do against ours?—A. On our item—comparable to the one Mr. Kemp read, on bound books—my memory is that it is 10 per cent, but we have a great many items on books and printed matter that are free across the board. There was no elimination of the tariff at Geneva on any book items.

Q. May I ask the attitude of the department in regard to doing something to allow promising authors in this country to export their wares to the United States without having to reside there themselves and do their creative work in that country?—A. You are beyond my sphere in that respect. All I can say is that the attitude of most governments under whom we have worked in this country has been that there should be as little impediment to the entry of literature, if I may use that term, as possible.

By Mr. Jaenicke:

Q. May I ask a question with regard to tariffs? I see on page 2 of this list malt. I have looked it up on page 162, and I find that in 1939 we imported malt to the amount of \$2,513 and in 1946 to the amount of \$2,134,709. Has our thirst gone up one thousand times since then?—A. Malt is a very mercurial product as regards importations. Sometimes we import very little; in other years, we import in large quantities. Czechoslovakia pre-war was always an important supplier of Canada, of both hops and malt; so was Poland and so was Germany to some extent, and so was England, of course—Kentish hops

There is a reduction here on the malt, as the sheet shows. The rates when we left for Geneva were one-third of a cent under the preferential and two-fifths of a cent under the most favoured nation; both are now one-third of a cent. It is an infinitesimal reduction, but it does mean the loss of a preference.

Q. Do we manufacture malt in Canada—if you call it manufacturing?—
A. Yes, we do.

By Mr. Timmins:

Q. Could I refer to another couple of tariff items, Nos. 143 and 144, cigarettes and cut tobacco. Did England willingly give up those two preferences?—

A. Yes, we received no objection whatsoever from England.

Q. There used to be a good trade with England?—A. In cut tobacco?

Q. Yes?—A. And there still is, but I think the United Kingdom felt, in respect of her well-known brands, that she would still have a market for her tobacco. There was no objection to the reduction from 95 to 80 cents.

By Mr. Harris:

Q. After an expenditure by some people in Toronto of \$10,000,000 or \$15,000,000 the malt production would appear to be pretty well sufficient to take care of our own requirements?—A. We are very big producers.

Q. Yes, but we are opening another plant which will cost at least \$10,000,000.

By Mr. Jaenicke:

Q. Do we export malt too?—A. Yes, we export it.

Q. To the United States?—A. This is an infinitesimal reduction, yet it results in the loss of a preference. We export to many countries and Mr. Kemp could give a breakdown of the exports.

By Mr. Timmins:

Q. May I refer back to cut tobaccos?—A. Yes.

Q. You say there was a good business of importation of cut tobacco from Great Britain. What would motivate them in the Geneva Agreement to give up that preference?—A. I am not suggesting, Mr. Timmins that they were anxious to give it up, but we all were giving up certain preferences. Australia was giving up certain preferences, as were New Zealand and the United Kingdom. This was an item with respect to which they raised no objection.

Q. Again I see the concession was attributed to the U.S.A., so the U.S.A. really was able to take that market away from Great Britain?—A. You mean that they may now?

Q. That is what it amounts to?—A. They will pay the same rate but I doubt very much if they will take the market on cut tobacco away from Great Britain. On cigarettes it is quite possible that there will be a larger importation. The old rates against the United States were \$3 a pound plus 15 per cent, and they are now \$2 plus 15 per cent.

Q. That is to all the world?—A. To all the world, yes.

Q. To all those under the most-favoured-nation tariff?—A. That is right, sir.

By Mr. Marquis:

Q. Since Czechoslovakia has a Communist government has there been any change in our whole commercial relation with that country?—A. I am not competent to speak regarding our general relations with Czechoslovakia if you mean on the political level, but as regards purely commercial relations—

Q. Yes?—A. Since Mr. Deutsch gave evidence at the last meeting—at which time he said eight countries had agreed at Geneva to bring the agreement into provisional effect and a ninth, Cuba, had since agreed to do so—we have been notified that Czechoslovakia has brought the agreement provisionally into effect. This notification will, I presume, be dealt with by the government in a

routine manner. It will require an order in council to bring the items into effect. As far as our negotiations are concerned, the concessions were attributed to Czechoslovakia because she negotiated and gave concessions in return.

Q. She received the treatment of a most favoured nation?—A. Czechoslovakia has been, for many years, a favoured nation in so far as Canada is concerned.

Mr. TIMMINS: Mr. Chairman, may I ask Mr. Kemp to table or produce those returns that he had so that we can look at them and ask general questions.

The VICE-CHAIRMAN: I was going to suggest that perhaps Mr. Kemp could show you the work that he has prepared and if there is anything which you want it will be tabled.

Mr. TIMMINS: Some of the other members may be interested.

The VICE-CHAIRMAN: I am at the disposal of the committee.

Mr. BENIDICKSON: Let Mr. Timmins have a look at them and see what he wants?

Mr. TIMMINS: I can look them over between now and the next meeting.

The VICE-CHAIRMAN: Now, gentlemen, are there any other questions of Mr. McKinnon? Shall we ask him to come back here on schedule 5 or are we through with Mr. McKinnon?

By Mr. Timmins:

Q. May I ask Mr. McKinnon one more question? I have a return from the government in respect of Cuba which you just mentioned had become the ninth nation under the provisional agreement. I see that in 1946, we exported to Cuba something over \$5,000,000 and in the same year, 1946, we imported from Cuba something under \$13,000,000. I suppose if these figures were repeated in 1948, it would mean that Cuba was getting a little the best of us in respect of us opening up our market to her?—A. I do not know that it would, Mr. Timmins. Perhaps the chief concession that was given to Cuba at Geneva was a reduction in the rate on cigars. The rate was extremely high when we started; my memory is that the ad valorem equivalent was about 100 per cent. We did reduce that rate for Cuba. Cuba also got a reduction on rum. The m.f.n. rate was reduced from \$7.00 to \$6.00.

Q. That would be in competition with the West Indies?—A. Yes, but what Cuba wanted was the same rate as the West Indies.

Q. What is bothering me is our trade balance with Cuba is very much against us. We exported to Cuba something over \$5,000,000 and we imported from Cuba something over \$13,000,000. Is that a fact which you took into consideration at all?—A. Yes, it was, but we got some very substantial concessions from Cuba in return.

Q. Can you tell us those in a general way?—A. Yes. Mr. Kemp could tell you what they are more quickly than I could. They include reductions on flour and milk.

Mr. KEMP: Perhaps, before beginning on the concessions received, I should say that for many years in our trade with Cuba the balance was the other way, we exported much more to them than we imported. However, our wartime sugar requirements had to be met to a considerable extent from Cuba so that resulted in an unusual situation in which our imports from Cuba expanded a great deal more than our exports to Cuba.

Mr. MCKINNON: It was not normal.

Mr. MARQUIS: Is it not a fact that our exports to the United Kingdom have an effect on our exports to Cuba?

Mr. KEMP: I am sorry, I did not quite understand you.

Mr. MARQUIS: Is it not a fact that the great bulk of the merchandise we export to the United Kingdom has a relation to the reduction of our exports to Cuba?

Mr. KEMP: That is quite true, sir. If we send a larger amount, let us say, of our wheat and flour to one country, we naturally have less left to send to some other country. We have obtained from Cuba, some very valuable concessions on some of our principal products, of which the main ones are fish and flour.

Mr. BLACK: What about potatoes?

Mr. KEMP: I think seed potatoes were already entering Cuba duty free, at least from September 1 to January 31 in each year, and that situation still continues.

Mr. TIMMINS: Did we get a lowering of the tariffs in respect of these items you are speaking about?

Mr. KEMP: Perhaps it might save the committee's time if I could just refer to the place where we have all this recorded.

Mr. McKINNON: Mr. Kemp is looking at the record of proceedings, No. 2.

Mr. KEMP: If you look at page 116, you will find a lengthy table showing the concessions we obtained from Cuba. It spreads over about two pages and shows the former rate and the present rate and the value of the trade in connection with each item. Probably it would be quickest for you to get the figures from there.

Mr. JAENICKE: What does that mean on page 117, in connection with flour, "Change in U.S. preference"?

Mr. KEMP: Before Geneva, Cuba extended a very substantial preference to the United States on flour.

Mr. JAENICKE: Like the British preference?

Mr. KEMP: Yes; and at Geneva they agreed to narrow the preferential margin, which thus improved our competitive position in Cuba as against the United States.

Mr. TIMMINS: They did that all along the line pretty much.

Mr. KEMP: I was just going to say, following Mr. Jaenicke's remarks, you will notice they negotiated at Geneva on some ten or twelve preferences to the United States; they reduced some and eliminated about a dozen.

The VICE-CHAIRMAN: Now, gentlemen, I think before adjourning—I am still asking the same question; are there any more questions for Mr. McKinnon? If not, I think we will thank Mr. McKinnon.

Mr. BLACKMORE: There was still some questions I ask the last time.

The VICE-CHAIRMAN: What were they?

Mr. BLACKMORE: Have you dealt with them, Mr. McKinnon?

The WITNESS: Do you remember them?

Mr. BLACKMORE: You mentioned that a few minutes ago.

The WITNESS: In connection with the values in the orchard industry?

The VICE-CHAIRMAN: Mr. Richards is supplying that.

The WITNESS: That is being put on the record.

The VICE-CHAIRMAN: Now, gentlemen, at the next meeting I suppose we will revert to the evidence of Mr. Deutsch.

Mr. TIMMINS: Will he be dealing with Havana?

The VICE-CHAIRMAN: The steering committee met the other day and made this suggestion, and I was asked to submit it to you; that in Mr. Deutsch's examination we should take the agreements and follow them by articles, one article after the other, not with the idea of carrying articles 1, 2, 3; but just as

a guide to discussion; so that if there is any discussion on article 1, we have it right through; and then when article 1 is finished, we go on to article 2, and we start our discussion on that, in order that we may make some progress. Up to the present time it seems that we have been going ad lib and we are not getting anywhere. That is the suggestion of the steering committee and I am bringing it to your attention now.

Mr. JAENICKE: Why didn't you mention it at the beginning of the session when they were all here? There are none of them here now.

The VICE-CHAIRMAN: We can suggest it at the beginning of the next session then. The Fisheries Council of Canada has asked to be heard by the committee and it has been suggested that we might call them for the 11th of May. These people are coming from out of town and they would like if possible to have us sit in the morning so they can go at night.

Mr. TIMMINS: What day of the week would that be?

The VICE-CHAIRMAN: That will be Tuesday, a week from today.

Mr. TIMMINS: We have two other committees sitting at that particular time, there is the Veterans Committee and the Committee on Industrial Relations—to say nothing of the Prices Committee and the Committee on Human Rights.

The VICE-CHAIRMAN: Could we ask them to come in the afternoon? These people, I am told, are coming from Halifax, so that if we have any change in our plans we had better advise them immediately.

Mr. JAENICKE: I think we ought to accommodate them.

The VICE-CHAIRMAN: Shall I ask them to come on the 11th of May at 10.30 o'clock in the morning?

Mr. JAENICKE: I would suggest so, yes.

The VICE-CHAIRMAN: With the idea of having them finish that day. Is that carried?

Carried.

The VICE-CHAIRMAN: Then we will adjourn to meet again at 8.30 p.m. on Thursday next when Mr. Deutsch will be the witness.

APPENDIX "A"

4.5.48

A.E.R.

To: Banking and Commerce Committee.

Memorandum: Apple Production and Exports, Canada and the United States
1935 to 1938.

Apple Production—

	Canada (bushels)	U.S.A. (bushels)	Canada as Per Cent of total Canada and U.S.A.
1935.....	13,517,700 ¹	177,916,000 ²	7
1936.....	12,062,700	117,506,000	9
1937.....	15,171,900	210,783,000	7
1938.....	15,667,200	132,354,000	11

Apple Exports (Fresh)

	Canada (bushels)	U.S.A. (bushels)	Canada as Per Cent of total Canada and U.S.A.
1935.....	6,703,029 ¹	12,239,000 ²	35
1936.....	4,518,606	6,755,000	40
1937.....	6,723,675	10,953,000	38
1938.....	8,463,246	12,071,000	41

¹ Crop Summary—Apples—Fruit and Vegetable Crop Report, July 17, 1944, Dominion
Department of Agriculture (Commercial Production).² U.S.D.A. Agricultural Statistics (1940)—Total Production.³ U.S.D.A. Agricultural Statistics (1940)—Fresh Exports.

A. E. RICHARDS.

APPENDIX "B"

To: Banking and Commerce Committee.

Memorandum: Value Per Acre of Farm Land and Buildings in Canada and the
United States and in British Columbia and Washington.

Years	Canada (dollars)	Years	United States (dollars)
1921.....	35.87	1920.....	69.38
1931.....	24.85	1930.....	48.52
1941.....	17.22	1940.....	31.71
	British Columbia		Washington
1921.....	59.97	1920.....	69.49
1931.....	40.82	1930.....	57.17
1941.....	22.01	1940.....	39.08

A. E. RICHARDS.

APPENDIX "C"

4.5.48
J.A.R.G.

To: Banking and Commerce Committee.

Memorandum: Numbers of Apple Trees and Acreages in Orchards, by Provinces.

	1921	1931 (Thousands)	1941 ^(a)
British Columbia—			
Number of trees on farms			
of bearing age (10 years and over).	1,695	1,407	1,020
not of bearing age (under 10 years)	525	341	346
Total ^(b)	2,220	1,748	1,366
Acreage in apple orchards.....	....	....	24,291 ac.
Ontario—			
Number of trees on farms			
of bearing age (10 years and over).	4,551	3,710	1,140
not of bearing age (under 10 years)	994	631	747
Total ^(b)	5,545	4,341	1,887
Acreage in apple orchards.....	....	....	46,755 ac.
Quebec—			
Number of trees on farms			
of bearing age (10 years and over).	791	912	463
not of bearing age (under 10 years)	561	637	817
Total ^(b)	1,352	1,549	1,280
Acreage in apple orchards.....	....	....	21,822 ac.
New Brunswick—			
Number of trees on farms			
of bearing age (10 years and over).	410	339	91
not of bearing age (under 10 years)	147	75	56
Total ^(b)	557	414	147
Acreage in apple orchards.....	....	....	2,377 ac.
Nova Scotia—			
Number of trees on farms			
of bearing age (10 years and over).	1,836	1,825	1,524
not of bearing age (under 10 years)	302	367	293
Total ^(b)	2,138	2,192	1,817
Acreage in apple orchards.....	....	....	37,030 ac.

^(a) Age breakdown of trees, on farms with less than 50 fruit trees was not obtained in 1941, although the total includes trees on such farms.

^(b) Includes crabapples.

Sources: Census of Agriculture—British Columbia, Ontario, Quebec, New Brunswick, and Nova Scotia—in all publications—p. 100, Table No. 13.

A. E. RICHARDS.

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Canada Banking and Finance Committee
1947/48

(SESSION 1947-48

HOUSE OF COMMONS

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STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

Subject-matter of the General Agreement on Tariffs and Trade,
including the Protocol of Provisional Application thereof,
together with the Complementary Agreement of
October 30, 1947, between Canada and the
United States of America.

THURSDAY, MAY 6, 1948

WITNESS:

Mr. J. J. Deutsch, Director of Economic Relations Division, Department
of Finance.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1948

ERRATA

The hour of adjournment, mentioned in the last paragraph of the Minutes of Proceedings of Thursday, April 29, 1948, (appearing on page 219), should be corrected to read 10.40 o'clock p.m., instead of 12.40 o'clock p.m.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, ROOM 430,

THURSDAY, May 6, 1948.

The Standing Committee on Banking and Commerce met at 8.30 o'clock p.m. Mr. G. Edouard Rinfret, Vice-Chairman, presided.

Members present: Messrs. Argue, Arsenault, Black (*Cumberland*), Blackmore, Fraser, Fulton, Gour (*Russell*), Hackett, Hazen, Isnor, Jackman, Jaenicke, Jutras, Lesage, Quelch, Rinfret, Ross (*Souris*), Smith (*York North*), Timmins.

In attendance: Mr. H. B. McKinnon, Chairman of the Tariff Board, Mr. W. J. Callaghan, Commissioner of Tariffs; Mr. R. Cousineau of the Tariff Board; Mr. J. J. Deutsch, Director of the Economic Relations Division, Department of Finance; Mr. Hubert R. Kemp, Director of Commercial Relations Division, Mr. Louis Couillard, Commercial Relations and Foreign Tariffs, Mr. A. L. Neale and Mr. G. C. Cowper, of the Department of Trade and Commerce; Mr. A. Richards of the Department of Agriculture.

The Vice-Chairman informed the Committee that Mr. F. H. Zwicker, Lunenburg, N.S., First Vice-President, and Mr. C. D. Penney, Vancouver, B.C., Member of the Council, would appear on behalf of the Fisheries Council of Canada before the Committee at 10.30 o'clock a.m., Tuesday, May 11. He also read a communication from Mr. T. Oakley, President, Canadian Importers and Traders Association, Inc., requesting to appear before the Committee. The Clerk was instructed to notify Mr. Oakley that the Committee would hear him on Thursday evening, May 13. (See Minutes of Evidence).

The Committee then considered clause by clause the Final Act of the Second Session of the Preparatory Committee of the United Nations Conference on Trade and Employment, held at Geneva from April 10 to October 30, 1947.

Mr. J. J. Deutsch was called. He explained the purport of each Article of the Final Act and was questioned thereon. His deposition was adjourned to a future sitting.

At 10.25 o'clock p.m. the Committee adjourned to meet again at 10.30 o'clock a.m., Tuesday, May 11, 1948.

ANTOINE CHASSÉ,

Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
May 6, 1948.

The Standing Committee on Banking and Commerce met this day at 8.30 p.m. The Vice-Chairman, Mr. G. Edouard Rinfret, presided.

The VICE-CHAIRMAN: Gentlemen, shall we come to order. The secretary informs that the Fisheries Council of Canada wishes to send before the committee Mr. F. H. Zwicker, Lunenburg, Nova Scotia, First Vice-President of the Council and, as well, Mr. C. D. Penney, Vancouver, B.C., member of the Council. Those gentlemen have been advised to be here on Tuesday, May 11. The Canadian Importers and Traders Association Incorporated, to whom we wrote answers as follows:

May 4, 1948.

ANTOINE CHASSÉ, Esq.,
Clerk of the Committee on Banking and Commerce,
House of Commons,
Ottawa, Ontario.

Dear Sir:—I am in receipt of your letter of April 30 and note that the committee is considering the general agreement on tariffs and trade including the protocol of provisional application together with the complimentary agreement between Canada and the United States.

This association would be very glad to appear before the committee and submit such information as is available to it to the committee.

If you will be good enough to advise us when future sittings of the committee will take place, we will endeavour to arrange to attend at such a time as may suit the convenience of the committee and ourselves.

Thanking you,

Yours very truly,

CANADIAN IMPORTERS & TRADERS ASSOCIATION INC.,

T. OAKLEY,
President.

Are the members of the committee in favour of asking Mr. Oakley to send a representative also on Tuesday? Such action might mean two or three sittings on that day.

Mr. FRASER: What is the name of this association?

The VICE-CHAIRMAN: The Canadian Importers and Traders Association.

Mr. FRASER: Well, if they want to be here I think they should be given the opportunity.

The VICE-CHAIRMAN: My point is that if we call them for Tuesday, when we have already two persons appearing before the committee, it might mean that we would have to sit three times on Tuesday. Is that agreeable?

Mr. BLACK (*Cumberland*): There are other committees sitting on that day. Today there were three different committees meeting at different hours and that situation will probably apply on Tuesday.

Mr. HACKETT: I have two committees to which I must attend Tuesday.

The VICE-CHAIRMAN: I think everyone finds themselves in much the same position.

Mr. FRASER: Could you not call them on Thursday?

The VICE-CHAIRMAN: We could have them on Thursday.

Mr. FRASER: That would be better.

Mr. HACKETT: What we are talking about is whether we shall sit two or three times on Tuesday.

The VICE-CHAIRMAN: We have two witnesses coming in on Tuesday morning at 10.30. Their evidence may take long, or it may not take long, I do not know. If we ask the Canadian Importers to come on the same day it might mean that we would have to continue sitting two or three times on the same day.

Mr. FRASER: Do you not think they should come on Thursday?

The VICE-CHAIRMAN: Is it agreed?

Agreed.

Mr. J. J. Deutsch, Director of Economic Relations Division, Department of Finance, recalled:

The VICE-CHAIRMAN: Mr. Deutsch is back on the stand, if I may put it that way, and your steering committee suggests, in order to expedite matters, that we take section after section without having to carry them and Mr. Deutsch will direct the discussion. If it is agreeable to the committee I would ask Mr. Deutsch to tell us what article I of the general agreement means. The members of the committee will be in a position to question Mr. Deutsch on that article after he is through. After an explanation of that section Mr. Deutsch will pass to section 2.

Mr. BLACKMORE: Does Mr. Deutsch propose to deal with sections 1, 2, and 3 together—those are contained in article I—or will he deal with them one at a time?

The WITNESS: Mr. Chairman—

Mr. TIMMINS: What are you reading from, Mr. Deutsch

The WITNESS: I am reading from the final act, the document called the "final act". Now, Mr. Chairman, I would like to proceed in the manner which the committee finds most helpful and any time the committee feels that I should proceed in a different manner I would be grateful if the committee would tell me. I do not want to proceed in any way but that which you find most helpful. At the outset I would like to make a brief explanation of the general structure of this agreement. You will notice that the agreement is divided into three parts, part I, containing the provisions with regard to tariff and customs methods, begins on page 6 and runs to page 12: Part II begins on page 12 and runs to—

By Mr. Jaenicke:

Q. Page 58.—A. I believe that is correct, yes. Part III begins from page 58 and runs to the end of the book. Part II deals with non-tariff matters which may affect trade, and Part III deals with procedural matters, namely matters concerning administration of the agreement and the relation of the agreement to the Havana Charter, and so forth. Those are the three parts into which this agreement is divided. The first article in Part I, shown on page 6, is entitled "general most favoured nation treatment". Perhaps it would be useful if

I dealt with it paragraph by paragraph. The first paragraph is a statement of the most favoured nation rule and it says that members will accord tariff treatment to other members equally—in other words all members will be treated alike with regard to any products originating in the other member country. That is the most favoured nation rule in its unconditional form and it applies of course, in so far as this document is concerned, only to member states in this “club”. You are not required to give most favoured nation treatment under this agreement to countries which have not signed the agreement. With regard to countries who have not signed the agreement the individual nations have freedom to do as they wish.

Q. They must treat other countries no better than the contracting parties?

—A. No, I was going to explain, Mr. Jaenicke that the treatment of other nations, and whether you give them most favoured nation treatment is a matter to be decided by each member but you cannot give a country which is not a member more favourable treatment than that which you give to a member.

Q. And if you had new rates then the new rates would apply to all members?—A. That is right. This statement is not different fundamentally from the statement of the most favoured nation rule which has become customary in most trade treaties even before this Geneva agreement was signed. These are the common standard clauses in most trade treaties which have been made in the past. So this is nothing basically new here. The second clause—if there are no questions on this one?

The VICE-CHAIRMAN: Are there any questions on Clause 1, of article 1?

Mr. BLACKMORE: Mr. Chairman, I would be glad if Mr. Deutsch could give us in a general sort of a way at least an idea of how any nation or any people will benefit through this thing. Is it going to raise the standard of living and ensure full employment and large and steady growth in the volume of real national income and effective demand? It seems to me that we need to understand that in order to be able to appraise the value of this article in the trade agreement.

An hon. Member: By itself?

Mr. BLACKMORE: If the most favoured nation treatment is of real value in international trade, accomplishing the purposes which are set forth here, it seems to me that it ought to be possible to show that; at least, to indicate it rather clearly. I would like to know as to how that may be done.

By Mr. Hackett:

Q. Does it merely mean that the most favoured nation rule disappears?—

A. You mean, disappears outside of this statement?

Q. No, as between the parties to the agreement.—A. As between the parties to the agreement, they undertake by signing the agreement to give each other most favoured nation treatment. That is what this clause says.

Q. Does that mean that it disappears—all people who are in the club have to be treated alike?—A. That is right.

Q. So there is no most favoured nation?—A. I see what you mean, they would be in this favoured nation club.

Q. Yes.—A. That is right. All who are in this club have to treat each other alike. Outside of the club a member may or may not extend most favoured nation treatment to countries outside of the club. It is up to themselves, but they cannot treat a member less favourably than they do an outsider. That is the only limitation, and that is the natural limitation you cannot treat outsiders more favourably than you treat insiders.

Q. And then, are there exceptions?—A. There are exceptions which I come to in the next clause.

Q. Yes.—A. Now, Mr. Blackmore's question is rather a fundamental question, and to answer it one has to consider the general theories upon which these benefits of multilateral trade are supposed to rest. Without a clause of this kind, an undertaking of this kind, you would have or you could have discrimination in the treatment between countries. Any two countries might get together and say, we will give one another this and this favourable treatment and we will not give it to anyone else; and, therefore, any other two sets of countries could do the same thing. You could build up in that way a pattern of trade which is based upon a beggar thy neighbour policy; that is, you could have a situation where the countries would always be endeavouring, so to speak, to steal a march on the others by trying to enter into exclusive arrangements with one another and refuse to give those benefits to anyone else. Now, that would be all right; that would be a fine system if any country could make such an exclusive arrangement while preventing others from taking any retaliatory action. Clearly, if two countries make an arrangement giving one another exclusive privileges some other country is going to be hurt by that arrangement. It may be damaged. Such countries which are damaged would make exclusive arrangements with someone else in retaliation which might in turn hurt one of the original parties. The thought is that a system of that kind could not lead to a situation which is generally beneficial. It would lead also to the possibility of discriminatory arrangements of an unlimited scope which it seems to me would give the greatest bargaining power to the country which is economically strongest. A country which is in the strongest bargaining position is there because it is the strongest economic power; either because of its trading power, because of its wealth or because of its foreign exchange position—whatever you wish. It would be able to offer very strong resistance against countries which are weaker states. It would get down to horse trading and exclusive arrangements of the most discriminatory kind. In a system of that sort it is bound to happen, that a country in the strongest position economically will be in the strongest bargaining position, and the weaker one will be the one to get hurt. Now, the purpose of the most favoured nation rule in trade it seems to me is to create a situation in which all countries large and small have the possibility of making mutually beneficial arrangements. That is why the rule says that you must not make exclusive arrangements between any two countries, that you must make any privileges extended between two countries available to all the others in the club. That rule it seems to me creates a situation which minimizes the unequal bargaining position resulting from differences in strength. That is I think bound to bring about a larger volume of trade internationally and on a more equitable basis than if we had a situation without a rule of this kind. That has been the theory behind the most favoured nation treaties rule.

By Mr. Blackmore:

Q. I wonder if I might ask two or three little details so I can get my teeth into this thing. Suppose now that Canada and New Zealand are dealing. Now, if Canada opens her doors completely and allows New Zealand butter and wool to come in without any restrictions whatever it is quite conceivable that the dairy industry and the sheep producing industry in western Canada at least would be completely destroyed. We can let British wool and British butter come in without any anxiety at all, or we probably could let South African butter come in; but when we come to let New Zealand butter come in we might encounter real difficulty. Now, that is the kind of proposition that I am just not able to see through and I wonder if Mr. Deutsch could explore it.—A. The

most favoured nation rule does not require you to reduce tariffs on butter to New Zealand unless you so desire. That is a matter for your own decision. The most favoured nation rule has nothing to do with that. If you are looking at your butter tariff, let us say, and you were considering what was the proper level for the tariff on butter, you would have in mind, of course, the chief source of competition which, in this case, would probably mean New Zealand. You would fix your level at the point you think desirable, having in mind the competition from New Zealand. So, the most favoured nation rule does not prevent you from dealing with that problem.

Now, you say we could let British butter in. What purpose is to be served in that, because no British butter will come. Furthermore, even if a little amount did come from some country, it would not attach any value to that trade. The country which would attach particular value to a concession on butter is a country that hopes to sell a significant amount in Canada. For countries that are not likely to sell any or very, very little, it is of hardly any significance to them whether or not the duty is lower than the duty against New Zealand or not. It is of no particular consequence. So, it seems to me, while you may, without this rule, keep a tariff against New Zealand butter but reduce the tariff or remove it entirely from the United Kingdom and other countries which are not likely to send in butter, there is no purpose served. It does not accomplish anything. If, indeed, butter did come from these other countries, you would be in the same position as you are with New Zealand, so what is the point?

MR. JAENICKE: I think the question Mr. Blackmore is asking would come under article 19, for instance. There is an escape clause there and we come to that later, Mr. Blackmore.

By Mr. Blackmore:

Q. We are discussing here the most favoured nation clause. I am trying to make sure I have a comprehension of what that means. Suppose we have a situation such as this: Great Britain might possibly exchange some of her products, we will say textiles, with Southern Rhodesia for tobacco. That means she might be able to pay for the tobacco from Southern Rhodesia but if she were to accept her tobacco from the United States she might be unable to find any commodity the United States would accept in return. Now, because she had to shut out the United States tobacco to protect herself from an adverse trade balance, does that mean she would have to shut off tobacco from Southern Rhodesia?—A. So far as tariff action is concerned, yes. She could not remove the duty on tobacco from Southern Rhodesia and keep it on tobacco from the United States. The most favoured nation rule would prevent that except in so far as a preference now exists. I am coming to that later. The whole preference angle of the most favoured nation rule will be dealt with later. I am not discussing that at the moment.

Now, you went on to say, supposing the United Kingdom had balance of payment difficulties and could not buy tobacco from the United States. On the matter of the balance of payments difficulties there is another section of this charter which deals with that subject.

Q. What I am trying to do is get the picture of what the most favoured nation clause means?—A. The most favoured nation rule here applies only to tariffs. It does not apply to quantitative restrictions. The statement here refers only to customs duties. When you get to the balance of payments problem and what can be done to rectify or correct balance of payment difficulties, that is dealt with in another section of the agreement. Perhaps we could discuss that aspect when we get to that section.

So far as customs duties are concerned, they could not remove the duties against Southern Rhodesia and, at the same time, retain them against the United States. The most favoured nation rule prevents that.

Q. That means, then, if they wanted to protect their economy from United States competition, they would have to do it by some means other than tariffs? —A. Other than a discriminatory tariff, that is right, sir. There is a provision later in this agreement for such action, but not by tariffs.

By Mr. Black (Cumberland):

Q. Supposing, in the operation of this agreement, you recognize the duties which are in effect? Take, for example, the butter Mr. Blackmore mentioned. The channels of trade are opened up and there is a great deal of butter comes in from New Zealand which adversely affects butter production in this country. Are we, under this treaty when it becomes effective, allowed to increase our duty so as to protect that industry?—A. In the first place, we did not in this agreement touch the duty on butter. This agreement has not changed our existing duty on butter.

Q. Could we increase the duty on butter after this treaty becomes effective? —A. I think the duty is now bound to New Zealand. The existing duty is bound by a previous treaty to this one.

By Mr. Hackett:

Q. Is not the question— —A. Yes, I think I know what you are coming to, Mr. Hackett.

Q. In the absence of a treaty you could adjust your tariff as you see fit? —A. Yes, if butter is not bound, then we could do what we like. Suppose, for the sake of argument, it were bound under this treaty. It is not, but suppose it were. There is a clause to which I will come later which says that if, as a result of some action taken in this agreement, imports come in in such volume as to seriously threaten the domestic producers, you may withdraw the concession which has been made.

By Mr. Black:

Q. On that one article or on everything?—A. On anything, on any article upon which you have made a concession in this agreement.

I might also point out at this stage it is expected that article will only be used in extreme cases. Obviously, if it were used generally, the whole thing will break down very quickly. It is an escape clause to be used in exceptional cases.

By Mr. Blackmore:

Q. Who is to be the judge and by what standards does he judge?—A. The judge, in the first instance, is the country itself. The country must, if there is time, notify the other contracting parties that it is taking that action. The other contracting parties may wish to make representations and those representations must be heard.

Q. Now, where are they made and where are they heard? Before the I. T. O.?—A. In the case of this agreement, before a committee of the contracting parties.

Q. Which is the I. T. O. in embryo, is that it?—A. That is right. Now, supposing a country takes action of this kind and the other countries protest. Even if there are protests from the others, action may be taken by that country. However, if the committee agrees, the other countries may take offsetting action against it. In other words, they may also, then, withdraw certain concessions.

By Mr. Lesage:

Q. Is this the fourth or the fifth time, Mr. Deutsch, you have answered this question?—A. I do not know.

By Mr. Argue:

Q. Would the most favoured nation clause effect, in any way, the Canadian bacon contract with Britain?—A. No.

Q. Would it prevent us from making similar contracts in the future?—A. No, this article has nothing to do with that question. That is what is called in this agreement, state trading or bulk trading; that is not affected by this.

Q. But the different prices in the same agreement might have some effect as to whether there were higher or lower tariffs?—A. Yes, but that is dealt with later.

By Mr. Hackett:

Q. Under this clause, could a nation put a quota against another nation, a quota on the goods coming in?—A. So far as this clause is concerned, yes, but the question of quotas is dealt with in a later section.

The CHAIRMAN: Section 2 of article 1, gentlemen?

The WITNESS: The second paragraph deals specifically with the question of preferences. The most favoured nation rule in its pure form would not, of course, permit countries of the British Commonwealth to extend preferences to one another. That is obviously not in conformity with the pure most favoured nation rule, and in this particular club we have several members of the British Commonwealth. Before the club was formed those countries of the British Commonwealth were extending preferences to one another. That means that they were giving one another tariff treatment which was more favourable than they were giving to other countries. Clearly in that sense it is not in accord with the most favoured nation rule. As far as this agreement is concerned the British preferences are recognized as an exception to the most favoured nation rule.

By Mr. Blackmore:

Q. In a general way the attitude of the people who were met together in this conference was that the system of preferences amongst any group of nations is not in accordance with the best interests of the world as a whole from a trading standpoint? That is assumed?—A. That is assumed.

Q. It is not proved but it is assumed?—A. It was assumed preferential arrangements are not in the best interests of the world as a whole but they went on to say there are, in fact, preferential arrangements in effect, and those preferential arrangements which are now in effect are recognized as an exception to that rule. They do not have to be abolished.

By Mr. Timmins:

Q. And there can be new ones, too?—A. No.

Q. Custom unions, and so on?—A. Oh, yes, customs unions. This article goes on to say:

The provisions of paragraph 1 of this article shall not require the elimination of any preferences in respect of import duties or charges which do not exceed the levels provided for in paragraph 3 of this article and which fall within the following descriptions.

In other words, they do not recognize any other preferences but they specify the preferences which shall be recognized as an exception. They specify them. The first specification is A.

(a) Preferences in force exclusively between two or more of the territories listed in annex A, subject to the conditions set forth therein.

In annex A you will see the list of countries.

Mr. HAZEN: What page is that?

Mr. TIMMINS: Page 70.

The WITNESS: There it lists the members of the British Commonwealth and the colonies which extend preferences to one another. The preferential arrangements between those countries are recognized as an exception.

Then we have B.

- (b) Preferences in force exclusively between two or more territories which on July 1, 1939, were connected by common sovereignty or relations of protection or suzerainty and which are listed in annexes B, C and D, subject to the conditions set forth therein.

Annex B follows immediately after annex A on Page 72. There you see the French system, the preferential arrangements which exist between France and its colonies and dependencies and protectorates, and so on. Annex C shows the preferences which exist between the Benelux customs union and colonies of the Netherlands and Belgium. Annex D shows the countries which receive or give preference to the United States. The most important ones there, of course, are the Philippines, and dependent territories of the United States. Annex E shows the list of countries in South America which extend preferences to one another. Those are Argentina, Bolivia, and Peru. Annex F shows the arrangement between Palestine and Transjordan and Lebanon and Syria.

These specific arrangements, you see, are recognized as exceptions. They are listed specifically so as not to include any other preferences that exist in the world. I do not think there are any important ones outside of this particular list.

By Mr. Blackmore:

Q. Under this agreement after it is once signed it would be impossible for any additional group to build up a preferential system?—A. That is right. In other words, if countries not in these lists wish to get together and say, "Let us have a preferential system," that would not be permitted.

Q. Even if it meant their national survival?—A. I would not go as far as that because you can waive obligations under agreement if the parties agree. In other words, if a set of countries came along and said, "our national survival depends on new preferences," and if they could show that was so, of course, that would be considered.

Q. Suppose you had Japan and China whose economies are more or less complementary to each other and they said, "We simply must have an arrangement whereby we can use each other's resources." That was the thing that was fought about in 1938, was it not, and in the last analysis it was this principle which precipitated war with Japan. What would happen if they presented a case like that?—A. Without commenting on your earlier statement, I do not know if that caused the war or not.

Q. We will suppose it did, just for illustration.—A. Well, of course, it is always open to any two countries to come to this organization and say that "It is a matter of great national importance to us," or something very, very important to their economic well being or survival, "and we want you to agree to an exception which enables us to make a preferential arrangement." It is always open to countries to do that, but they have to prove their case, and then an exception could be made, but that would require agreement of the parties, a two-thirds majority of the parties. That is always open if they can make their case.

Q. Two-thirds of the nations that are in the organization?—A. That is right.

Q. Not a majority of the I.T.O.?—A. No, a majority of the people who sign this document. It is always open to waive this obligation by such a majority, and if they can prove their case of course it can be done, but as a general rule

it is not intended that should be done. You would have to get a waiver of this provision which could be obtained by the two-thirds majority.

By Mr. Hazen:

Q. Is there a provision in the charter which prohibits additions to existing preferences?—A. Yes, I was coming to that.

Q. Where is it found?—A. It follows immediately afterwards, after what I have been talking about.

Q. The next section?—A. Yes.

Q. The reason I ask that question is that I have been reading an article in *Time* about the charter, and it says:

The charter disapproved of additions to existing preference agreements but devised no effective way to prohibit them.

Is that wrong?—A. I should think the way of prohibiting them is about as effective as you can make it. In other words, if countries agree not to do it then presumably that is all you can ask them to do. Of course, if this thing breaks down and does not work then you start over again, but as far as this agreement is concerned it does specify that new arrangements cannot be made unless, as I have explained, you secure a waiver of the provision, and there is a procedure for doing that.

There is one thing I might mention. Perhaps I could mention it better on the next clause. There is a slight possibility for some new preferences in connection with economic development. If you have two countries which are under-developed economically, there are some provisions by which in certain specific cases some new preferences might be made, but I will deal with that when I get to the appropriate section of the agreement. It does not arise here.

By Mr. Blackmore:

Q. Would it be too early to ask this question and have it cleared up: How do you define an undeveloped country? What is the score card?—A. In the discussions, Mr. Blackmore, several times an attempt was made to find a body of criteria for deciding whether or not a country was developed or undeveloped, and after much discussion it was agreed there were no such body of criteria, so it was agreed they would just say, developed countries and undeveloped countries and leave it to the judgment of the organization when specific and concrete cases arose. It is quite clear there are a large number of countries which everybody will admit are undeveloped; it would cover most of the countries in the world; practically every country in South America would clearly fall into that category, so would China and India and most of the Middle East.

Q. Would Japan?—A. I doubt it.

Q. There must be some standard.—A. There is no body of criteria laid down. There is some rough standard which people have in their minds, but it was felt better not to try to set down hard and fast rules, and leave that to the judgment of the organization.

Q. But, Mr. Chairman, the judgment of the people is going to depend on the standard they have in their mind, either implicit or explicit.—A. Yes, that is right.

Q. That is one of the points that are all important, in my judgment, in judging this whole treaty.—A. Well, the standards I say are not laid down in the agreement; that is left to the judgment of the various countries represented on this organization. In most cases there would be no doubt about it. For instance, it is quite clear that the United States is not an undeveloped country; the United Kingdom is not an undeveloped country. It is quite clear that

France or Belgium or Holland and most of the countries of western Europe are not undeveloped countries. It was clearly understood they could not make an appeal on the ground of under-development.

Now, in regard to Canada, there you get a little more to the edge of the situation. I think I am right in saying, Mr. McKinnon, that most countries simply took it for granted that we were a developed country in the sense we are talking about here.

Mr. McKINNON: Almost to the point of our embarrassment.

The WITNESS: Yes, almost to the point of our embarrassment. It was not because of our furthering that thought; we did nothing whatever to further that thought. Indeed, we did point out to a lot of people many times that we were by no means near the end of our development. Clearly, we have made great progress in development by any standard you wish to choose, but at least we never for one moment considered that we had no room for further development, and a great deal of further development. We pointed that out many times.

By Mr. Hackett:

Q. What is the criterion by which development is measured? Is it, for instance, the excess of exports over domestic requirements?—A. No, I think, Mr. Hackett, the view generally taken is the degree to which capital has been applied in your productive system. That is probably the most general standard that might be used.

By Mr. Blackmore:

Q. I do not want to interrupt, but I want to follow up Canada's case.—A. I think the most generally accepted standard was the degree to which capital had been employed in the productive system, and the use of modern techniques.

Q. And now, take the oil industry, for example, in Canada. It is pretty well agreed, I believe, by people in a general way, that Canada is quite capable of developing herself to the point where she supplies her own gasoline and oils, but she is far short of that today. She is producing something like 11 per cent of her needs.—A. That is right.

Q. Now, you could not call Canada properly developed in respect of oil until she is producing all her own oil.—A. That depends in relation to your resources. We do not know what our resources are. That is one of the reasons why we kept insisting to others who were rather too enthusiastic with regard to the state of maturity we had reached. We pointed out that there are a great many fields in our country where development has hardly begun. Oil may be one of the cases.

By Mr. Hackett:

Q. Our technique in development is high?—A. Yes, our technique in development is high. They were looking more to the generality of the situation. They had in their minds in the case of Canada, generally speaking, that we employed a large amount of capital in our productive system and, generally speaking, we use very advanced techniques; the most modern techniques in our productive enterprises; and to them that was the evidence of a high degree of development.

As I said before, we had to point out on many occasions that they must not generalize too much because we have many fields where we were lacking in development.

Mr. McKINNON: We declined to bind quite a number of tariff items, leaving our hands free, on the ground that our development had not proceeded very far.

The WITNESS: Yes, that is a relevant point. In those cases we felt that our freedom of action was necessary and to achieve that development we did not tie our hands.

By Mr. Blackmore:

Q. Suppose we go on with an illustration. I am anxious to get this so that we can get hold of it, because a lot of these certain things are causing lots of trouble. Suppose we in Canada determined that we should develop our oil industry to the point at which we were producing all the oil we wanted, and suppose we began to adopt measures which would look toward the achievement of that end, such as excluding the oil from the United States and other places, and expending far more capital in the Athabasca tar sands and so forth. Now, if you had the difficulty you had in convincing these other nations that we were still undeveloped, we would have a hard time convincing them, would we not, if we pointed out we had devoted a tremendous amount of energy and capital to the development of our oil?—A. It all depends upon what you propose to do. There is nothing in this agreement, absolutely nothing, that prevents you from developing any resources you want to develop. All this agreement says is that if you have made certain commitments you must not break those commitments. Suppose we want to develop our oil by means of putting on restrictions against imports of oil by quantitative means such as prohibition or embargos or something of that sort, that is not permitted under this agreement.

Q. That might be the very thing we needed to use.—A. I do not know. If you want to spend a lot of capital and pay a subsidy or give special encouragement by means of tax relief or research help or anything like that, this agreement would not hinder you.

Q. There would be no objection to using subsidies to any desired degree?—A. No.

By Mr. Quelch:

Q. Unless you are exporting it?—A. Unless it was purely for export. If you want to subsidize your domestic production there is nothing to prevent you applying any amount of capital or giving any favourable concessions you want to give to the development of oil; there is nothing in this agreement to stop that. The agreement does say that you cannot put on prohibitions or embargos on imports. If you want to develop the industry you must do it by some other way, but not by that method. Embargos are a protective device. And, of course, any trade agreement that permitted absolute freedom for all protective devices would not be a trade agreement, it would be nothing; it would be a contradiction in terms. If you have a trade agreement looking toward the expansion of trade then you must do something about removing barriers to trade. If you had an agreement that said you could put on any barrier you liked, it is not a trade agreement.

Q. Would you give us the barriers which are included? One of them is tariffs?—A. Tariffs.

Q. Exchange control?—A. Broadly speaking, there are tariffs and quantitative restrictions which are the two methods usually employed.

Q. And exchange control?—A. Exchange control is not dealt with specifically in this agreement; that is dealt with under the Bretton Woods agreement. The question of exchange control is covered by the Bretton Woods agreement. In this agreement the two matters dealt with are tariffs and quantitative restrictions. Those are the two protective devices other than exchange control.

By Mr. Hackett:

Q. Was it in the negotiation of those agreements that the United States excluded a certain number of items concerning which they would not negotiate?

—A. Yes, all countries did that, Mr. Hackett.

Q. Are there provisions in the agreement for those exclusions?—A. Yes, you may keep out items upon which you do not wish to bind yourself. You only tie your hands on tariffs if you bind those items in the agreement. In other words when you enter into negotiations you may say to the people who want concessions that there are certain tariff items which you do not wish to bind and if you do not bind those you have a free hand.

By Mr. Blackmore:

Q. Even to the extent of discrimination?—A. No, not to the extent of discrimination. The height of the tariff rate would then have to apply equally to all members of the club—that is the most favoured nation rule. As far as tariff rates are concerned the level at which you wish to place your tariff is entirely up to you if you have not bound it. Presumably, if you are negotiating and you have something you want to do with a particular item you will not bind it. The agreement does not demand that you bind every tariff rate. Whether or not you bind the tariff item is something you yourself determine.

Q. The only two methods you could use for protecting your economy—supposing you are importing lettuce from the West Indies—the only two possible methods of protecting your economy would be quantitative restrictions and tariff?—A. That is right.

Q. That would be your choice and you are helpless—A. Presumably you will not bind the tariff if you want to do something with that item.

By Mr. Timmins:

Q. We left a great many items out?—A. Yes.

Q. With many many countries?—A. Yes. It is entirely up to yourself. If you feel you want to have freedom of action with respect to a certain tariff rate you do not bind it. Of course the other countries from whom you are asking concessions will not give you as much if you refuse to bind the rates. That is a matter of straight bargaining. You always have that in mind and it depends upon how much you wish to get from the other fellow. You have to strike a balance as to what you want to give up and what you want others to give you. That is something which you determine in your negotiations. If you had a case where you did not want to tie your hands you would refuse to bind the rate.

By Mr. Blackmore:

Q. Now may we return to this matter of development of a nation. Can we be safe in assuming, tentatively, full development would constitute that state of development in which the nation would be self-sufficient or would have a balanced economy?—A. No, self-sufficiency was not regarded as the decisive element in development. The general standard in the minds of most people was the degree to which capital and advanced technique was applied to production. That was the most general and common standard.

Q. Regardless of the production you had developed or the technique you had developed with respect to that item?—A. No, that would be one of the factors. I might say before we get too far off the subject that there is another section which deals specifically with economic development. I think we might get off on too much of a by-pass if we continue this discussion now. Over the page you will see preferences in force exclusively between United States of America and the Republic of Cuba, and other preferences contained in annexes E and F about which we have spoken. You will notice in the previous paragraph that the preference in respect of duties or charges do not exceed the levels prescribed in paragraph 3. There are two factors involved here. Countries which accord preferences to one another—that is one factor in paragraph 2—

and the second factor is the level at which preferences may be maintained. Paragraph 3 answers the latter question. Very briefly speaking and without getting into technicalities here, the preference may not exceed in the future the preferences which remained after the negotiations in Geneva or which were in existence as of a specified date. In other words the extent of the preference margin is frozen. You may not create a new preference—a preference which did not exist as of a certain specified date—and you may not increase any preference margin beyond the preference margin which remained after the Geneva negotiations were over or which existed on a specific date. That is covered here in the remaining clause of the paragraph. I do not know whether it is necessary to go into precise details but that is the meaning.

Q. It would help me greatly, Mr. Deutsch, if you would take one particular item and show us how this thing works in the case of that item?—A. All right, let us take the Canadian case. I will take two situations to make the point clear. Supposing there was an item in the Canadian tariff which, prior to Geneva had a rate against the United Kingdom of 10 per cent. The rate against the United States was 20 per cent or—the most favoured nation rate—We will talk about that. The preferential rate was 10 per cent and the most favoured nation rate was 20 per cent before Geneva. Suppose during the negotiations at Geneva it was agreed to retain the preferential rate of 10 per cent but to reduce the most favoured nation rate to 15 per cent. The preferential margin as we speak of it here, before the negotiations, was 10 per cent—a difference between 10 and 20 per cent. After the negotiations at Geneva it is now 5 per cent—the difference between 10 per cent and 15 per cent. According to this clause that margin in the future may never exceed 5 per cent. In other words that is the preferential margin which remained after Geneva on this particular item. In the future we undertake not to increase the margin beyond 5 per cent.

Mr. JACKMAN: The margin is an absolute percentage?

The WITNESS: Yes, as used in this language. The effect of this clause is that the 5 per cent is frozen. We can cut the 5 per cent or reduce it further by our own action if we wish but we could not increase it.

By Mr. Blackmore:

Q. By reducing the most favoured nation rate down to 12 per cent, for instance?—A. Yes, that is permissible.

Q. And you could not raise it after that?—A. It is not too clear whether we can go back again to the 5 per cent. I think the spirit of the agreement indicates the answer is no, but technically there may be a situation where you could. That gets off into a rather technical business which I would prefer to leave for the moment. The main point is the 5 per cent could not be increased in the future. Now supposing a British Commonwealth country which received the 10 per cent came along in the future and said "10 per cent is terribly high and we want that reduced" and suppose we said "all right, we will reduce it to 5 per cent—" we would then have to reduce the most favoured nation rate to 10 per cent.

Mr. BLACKMORE: I don't get that. I wonder if you would mind repeating it.

The WITNESS: I was just trying to point out the significance of freezing the margin. Suppose we have the margin down to 5 per cent; the preferential rate was 10 per cent and the m.f.n. rate 15 per cent after negotiation and that 5 per cent margin was frozen; supposing that the country receiving the preferential rate—let us say the United Kingdom—came to us and said we would be very happy if you would reduce that 10 per cent to 5 per cent. We look over our situation and say, maybe we can do that; all right, we do that. If we do that then

we reduce the preferential rate to 5 per cent. The preference margin is bound by the treaty at 5 per cent and we would be required to bring our m.f.n. rate down at the same time so that the margin between the m.f.n. rate and the preferential rate does not exceed a margin of 5 per cent.

Mr. GOUR: That is easy to understand. We make a bargain. If we reduce one and bring it down we have to bring the whole thing to the same level.

The WITNESS: That is right.

Mr. BLACKMORE: I am afraid, Mr. Gour, that is a little bit too evident all the way through the whole thing. But we all see that.

Mr. GOUR: It is easy to understand.

Mr. BLACKMORE: It is too easy to understand.

Mr. GOUR: Sure.

Mr. BLACKMORE: That is just what I am afraid of.

The WITNESS: Now, the other case I was going to mention. I was going to give you two examples. I have given you the first one. Now, let us take another item. For our second case let us assume that we had a rate before Geneva, let us say the rate as of July 1, 1939, before the war, was 20 per cent British preference and 30 per cent m.f.n.—and suppose at Geneva we decided we were not going to bind those rates for some reason or other—the rate remains 20 per cent preference and 30 per cent m.f.n. Well, then, this clause, this paragraph 3 here provides that the margin of 10 per cent, the difference between the 20 per cent and the 30 per cent, must not be enlarged in the future; the margin may not be increased.

Mr. HACKETT: What happens in the case of France, for instance, where you have a diluted currency? You know, a good many francs can be bought for a dollar. What happens there?

The WITNESS: Well, Mr. Hackett, that is another point we will deal with when we come to the appropriate section very shortly. I prefer to discuss it at that time.

Mr. HACKETT: All right.

The WITNESS: Is that sufficient explanation for you, Mr. Blackmore?

Mr. BLACKMORE: Yes.

The WITNESS: In other words, the preferential margins fixed through negotiations at Geneva will according to this agreement be the maximum margins you will be allowed.

Mr. JACKMAN: Whether they are bound or not bound?

The WITNESS: Whether they are bound or not bound.

Article II. May we pass on to that?

Article II—schedule of concessions.

The main effect of this article is to incorporate the schedules which Mr. McKinnon has been speaking about as a legal part of this agreement. You remember, the schedules show the tariff bindings each country agrees to give to the other members; and these schedules are made an integral part and legal part of this agreement in this article here. The article goes on to say that the members of this club will not charge one another higher duties or charges than are specified in the schedules.

Mr. JAENICKE: It binds the schedules.

The WITNESS: It binds the schedules. It says, the countries agree not to charge one another higher duties than are specified in the schedules. Then it goes on to say it cannot charge higher rates by any indirect device such as putting on supplementary charges, or whatever method they might use. You may not nullify each others commitments by some indirect device.

By Mr. Isnor:

Q. I wonder if we have a clause under which we can revise any item where an error has been made?—A. There is provision if an error has been made, Mr. Isnor. If an honest error has been made in the negotiations, or in the way items have been written out, there is provision for adjustment.

Q. If there is a misunderstanding it can be straightened out?—A. Yes.

Q. May I pursue that a little further. Have you seen the brief which was presented by the Fish Exporters Association in regard to salt fish?—A. I do not know of that, Mr. Isnor. I have not seen that.

Mr. JACKMAN: I think most of the members have received copies of that.

The VICE-CHAIRMAN: Yes, they just got it today.

The WITNESS: I haven't seen that so I cannot comment on it.

Mr. ISNOR: I have just been advised that there is a delegation coming here on that so I won't take up any more of your time on it.

The WITNESS: I have not seen it.

The VICE-CHAIRMAN: It is not one and the same organization, Mr. Isnor; that is the Canadian Atlantic Sea Fish Exporters' Association, and the one which is coming is the Fisheries Council of Canada.

Mr. BLACK (*Cumberland*): Are you not expecting a fellow by the name of Gardiner to come in?

Mr. ISNOR: There was a brief from the Salt Fish Exporters which was presented to the Department of Fisheries on February 11, 1946, and it was considered at the conference and apparently because of misinterpretation the term "salt fish" became confused with "dried fish". Are you familiar with that?

The WITNESS: I am not familiar with that, Mr. Isnor; maybe one of these gentlemen sitting around here is familiar with it. I am not.

Mr. ISNOR: Would there be an opportunity for them to give an explanation?

Mr. MCKINNON: We have received a copy of the brief, sir. I got a copy of it just this afternoon. I am sorry to say that I have not brought it with me, nor am I at the moment familiar with its contents; but we are expecting to be asked questions about it when the representatives of the fishermen are here next Tuesday morning and we would prefer to deal with the thing when they are here. We will have all the material with us on the whole thing and it could be thoroughly gone into.

Mr. ISNOR: That is all right, Mr. Chairman

The CHAIRMAN: Shall we continue with Article II? Have you finished with that?

The WITNESS: There are just one or two references I would like to make since members have raised questions. In this article also it is stated that while you undertake not to impose charges which are higher than specified in the schedule you are not prevented from putting on any internal taxes that you choose to put on, as long as those internal taxes apply equally to imports and to domestic production. As far as your own domestic tax policy is concerned that is not effected by this undertaking.

Mr. FRASER: Such as the 25 per cent excise tax?

The WITNESS: That is right; however, that 25 per cent would have to apply equally. As long as it applies to domestic production as well as to imports it comes directly within the provisions of the agreement.

By Mr. Argue:

Q. Supposing there were no domestic production?—A. Well, then if there were on domestic production at all, it depends upon the purpose of the tax put on. If the purpose were a protective one, then it would follow the provision. If it were a genuine revenue item, it would be permitted.

By Mr. Fulton:

Q. What about the regulation calling for a certain portion of Canada content in order to get the benefit of the British preferential rate under which our motor car industry is largely built. Is that permissible?—A. Yes, that is permissible under this provision.

Q. On my first reading of this agreement, I confess it occurred to me and to many others that was one of the things which would not be permissible.—A. That is permissible, very specifically. We were very careful to establish that.

Q. Could you show us the escape clause?—A. There is no escape clause required because there is no positive clause which prevents it.

By Mr. Jaenicke:

Q. It is part of the British preference, is it not?—A. No, the usual requirement is that if a certain content is reached, then the import duty on imports is reduced. Therefore, instead of raising a barrier it reduces the barrier and that is not contrary to any undertaking in this agreement.

By Mr. Fulton:

Q. As I understand it, in some cases, by arrangement with the British it was agreed that the preferential rate on export automobiles from Canada to the United Kingdom would only be granted by the British to those automobiles which, we will say, had a 50 per cent made in Canada content?—A. Yes, I see, you are trying to get at the other side.

Q. Yes by virtue of such an arrangement Canada was able to bring into Canada many motor car parts industries and manufacture in Canada parts which were formerly imported from the United States. That was done in order for those factories to get the benefit of the preferential rate extended by the British to us. Would such an arrangement be ruled out?—A. No, that is not ruled out by anything in this agreement. Furthermore, if you look at page 8, you will see this article covers it and other things as well.

Nothing in this article shall prevent any contracting party from maintaining its requirements existing on the date of this agreement as to the eligibility of goods for entry at preferential rates of duty.

By Mr. Fraser:

Q. Then, it would not matter if you changed the content such as that contained in the British requirement to 50 or 35 per cent?—A. It says existing as of this date.

By Mr. Fulton:

Q. I was asking you earlier, if you remember, as to when we handed over a certain degree of our control of our own economic destiny. I think we had a divergence of opinion on that. Supposing we wanted to build up further manufacturing industry in Canada by resort to such a provision or by increasing the Canada content, before anything could take advantage of— —A. I do not think if you increased it that there would be any difficulty under this agreement.

By Mr. Isnor:

Q. Mr. Fulton's point was, I think, well taken. I am under the impression that was the reason the Studebaker people made new arrangements with regard to their Canadian production, so as to meet the export trade. It was necessary for them to increase their Canadian content, is that correct?—A. I do not know about Studebaker, specifically. The application of those requirements with respect to preferential rates is not affected by this agreement.

By Mr. Fulton:

Q. I should like to direct your attention to clause 2 of article 3.

Products of the territory of any contracting party imported into the territory of another contracting party shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use.

Now, if we say that of automobiles being exported from Canada only those with 50 per cent made in Canada content—we make this arrangement with the British—only such automobiles shall be entitled to the British preferential rate, then we apply a different regulation or standard of circumstances to those automobiles without that part made in Canada, than we are to those automobiles with the parts made in the United States?—A. We are not making that regulation. The British are making that regulation.

Q. At our insistence?—A. It does not matter at whose insistence, we are not making that regulation; that is a British regulation. This does not say anything about that.

By Mr. Hackett:

Q. We were talking about the Ottawa agreements?—A. That is not our regulation.

By Mr. Fulton:

Q. I imagine it would be open to any one of the contracting parties to say that, on technical grounds, they are not your regulations but they are regulations worked out between you and the British and adopted at your insistence and, in fact, they are regulations if this clause means anything and is intended to mean anything— —A. It does not mean that.

Q. Is not the arrangement which I have suggested actually a circumvention of this clause?—A. No, this clause was never intended to deal with this matter.

By Mr. Timmins:

Q. Was it intended to deal with subventions?—A. That particular case does not fall under this clause at all. In the first place, the regulation as to what is eligible for entry into Great Britain is a British regulation, not a Canadian regulation. It may be worked out in agreement with us, of course, but it is their regulation.

As I pointed out at page 8,

Nothing in this article shall prevent any contracting party from maintaining its requirements existing on the date of this agreement as to the eligibility of goods for entry at the preferential rates of duty.

I might say we were very conscious of this situation and very careful to see that it was not infringed in any way.

May we pass on then?

By Mr. Blackmore:

Q. Just one point. It was made quite clear, but suppose we are dealing with gasoline coming into Canada. If we applied any rate, we shall say 25 cents on a given quantity of it, that would be permissible so long as we applied the 25 cents to our own product?—A. Yes, you are putting on a tax, that is right.

Q. Suppose we allowed it to come in without the 25 cents and we allowed a discount on our own. Would that be contrary to the agreement?—A. How do you mean?

Q. Suppose we allowed gasoline to come in, taking the 25 cents as an example, and we allowed our own gasoline to be sold at 23 cents, permitting a discount?—A. No, you must apply the same rate to the domestic product as you apply to the imported product.

Q. That means, then, we are deprived of every effective means of encouraging our own production?—A. That is, if you bound your tariffs.

Q. That would have nothing to do with the tariff?—A. If your tariff is not bound, then you could make whatever differential you wished to make.

Q. But that has nothing to do with a tariff, that has to do with a discount or a subsidy?—A. That is just a device. The effect is, by means of your discount, you provide a rate of protection; that is what you are doing. If the tariff is not bound, you can make that protection whatever you like.

By Mr. Fulton:

Q. But you definitely cannot discriminate in favour of your own product with respect to domestic sales, can you? You cannot say for instance, that for an automobile to be sold in Canada it must have a 50 per cent made in Canada content?—A. I see what you mean. Yes, that is not permitted. We will get to that mixing clause in a minute.

Q. That is under this article, section 3, article III.—A. We are not at article III now. I am talking about article II at the moment.

Q. Oh, I am ahead of you. I have been at article III for some time.—A. Mr. Blackmore, in that case if you have not bound your tariff you can put in whatever differential you like between the tax on the domestic item and the import item as long as the article is not bound, but if it is bound you cannot.

The VICE-CHAIRMAN: Any more questions on article II?

By Mr. Hazen:

Q. There is one I should like to ask. Mr. Deutsch quoted the words at the foot of subsection 3—

The VICE-CHAIRMAN: In 1-C.

By Mr. Hazen:

Q. Subsection (c) of article II at the foot of page 8:

Nothing in this article shall prevent any contracting party from maintaining its requirements existing on the date of this agreement as to the eligibility of goods for entry at preferential rates of duty.

—A. Yes.

Q. It is the words "from maintaining its requirements existing on the date of this agreement."—A. Yes.

Q. If its requirements increase after the date of this agreement do the preferences not apply to the increase?—A. It depends which direction. If the United Kingdom were to say that after today motor cars from Canada cannot enter the United Kingdom at a preferential rate unless the content reached 75 per cent whereas it was 50 per cent before, that I feel would not be contrary to any undertaking in this agreement because what you are doing is making it more difficult to obtain the preferential rate, and therefore no one would object.

Q. As I read the words "maintaining its requirements" I have in mind that the requirements might increase because production would increase. Therefore the requirements might increase.

Mr. McKINNON: I think Mr. Hazen may be interpreting the word "requirement" to be the number required.

The WITNESS: Oh, it does not mean that.

Mr. HAZEN: I did not understand it.

The WITNESS: Thank you, Mr. McKinnon. I did not get that.

Mr. MCKINNON: It really means law or regulation.

The WITNESS: It means law or regulation. It does not mean quantity.

By Mr. Hazen:

Q. What do you say the words "maintaining its requirements" mean there?
—A. It means regulation or law or prescription. That is what it means.

The VICE-CHAIRMAN: Are there any questions on article III?

The WITNESS: Mr. Hackett asked me a question about the exchange rate which comes under this clause. Perhaps I could answer it here.

By Mr. Timmins:

Q. Which clause?—A. Clause 2. It is specifically covered on page 10, 6A.

By Mr. Blackmore:

Q. Do you mean 4A?—A. 6A on page 10. You have got a different copy.

Q. Oh, I am sorry.—A. 6A on page 10 is the provision relating to adjustments made in duties resulting from a change in the exchange rate. The matter is of consequence only in cases of the specific rates because with the ad valorem rate it does not matter, the ad valorem rate being a percentage and, of course, the impact of the percentage is the same regardless of your exchange rate but when you have a specific rate that is expressed in absolute amounts quite a change can occur in the impact of protection through a change in the value of money. Suppose the protection is 5 cents a pound and the value of money drops in half. Of course, the protection is cut in half because the 5 cents is only worth half as much. In cases of that kind, in cases of specific duties there is provision made here for adjusting those duties when there is a substantial change in the exchange rate. I believe the figure taken is 20 per cent, if the exchange rate changes by 20 per cent or more.

By Mr. Gour:

Q. Suppose a pound of beef is 30 cents today and later it is 10 cents.—A. Yes, you can adjust it.

Q. Twenty cents on 30 cents is greater than 3 cents on 10 cents.—A. That is right. That is exactly the case, but they say we do not want to do that on every little change so we say that on any change that goes beyond 20 per cent countries have got the right to go to the organization and to request an adjustment in their specific duties to take account of that change in the exchange rate.

By Mr. Timmins:

Q. In dealing with France in respect to the schedules we put through here did our officials take into consideration the fact she had devalued her franc, or did we have any of those specific tariffs with France?—A. Yes. You remember the value of the French franc changed very considerably between 1939 and 1947 when we were negotiating, but in 1947 the French had made a complete revision of their tariff. I understand they had a complete revision based on the new situation, and we negotiated on that new revised tariff, not on the old tariffs.

Q. It would be a pretty difficult thing in a way to make up one's mind whether the new tariff was— —A. Was more protective or less protective than the old one. That was one of the troubles we had to wrestle with. Mr. Kemp can probably speak about that much more authoritatively than I can.

Mr. JACKMAN: I will give Mr. Kemp a practical example. What happens if we enter this agreement and at the time we did we had a specific duty against the importation of French wine of 50 cents a bottle, and then the franc is devalued for export purposes to at least 50 per cent. Have we the right to revise the specific duty against French wines?

The WITNESS: That is the other side of the coin, Mr. Jackman. When I was speaking about France earlier I was talking about the French tariff. You are raising the other side of the coin, in other words, our Canadian tariff. There is nothing in this agreement to enable us to change our duty because of the exchange rate in another country, because presumably our duty is still expressed in Canadian cents, not in French francs, and the Canadian cent has not changed.

By Mr. Fulton:

Q. Suppose it is a percentage?—A. The same thing applies.

By Mr. Quelch:

Q. Is the trouble there not because the members of this agreement also are supposed to be members of the International Monetary Fund?—A. Yes.

Q. And members of the International Monetary Fund are not allowed to depreciate their currency?—A. Yes, not without approval.

Q. France broke the agreement. What action is being taken by the fund to see that France keeps her agreement?—A. From the standpoint of Canada's interest in the case Mr. Jackman raises the matter is dealt with in precisely the way you have explained. All countries which are members of this organization must be members of the International Monetary Fund or must have signed an exchange agreement if they are not members of the monetary fund. Therefore they are not at liberty to depreciate their exchange rates without permission from the International Monetary Fund. If the International Monetary Fund gives permission presumably they have done so for good and sufficient reasons, and we in that case would not be permitted to take any kind of retaliatory action or make any adjustments in our duties against France.

By Mr. Hackett:

Q. France just reduced the value of her currency and nothing happened.—A. There was some difference of opinion between the fund and France.

Q. I understand there was, and nothing happened.—A. No, they decided it was better not to have anything happen.

By Mr. Jaenicke:

Q. The new Customs Act amendment says this in paragraph 55: "and in computing the value for duty of the goods in Canadian currency the rate of exchange shall be such as may be declared from time to time by the Bank of Canada." Is that the provision?—A. That is the provision in our law.

Q. And that would not be contrary to the agreement?—A. No, if the Bank of Canada fixes those rates, according to the parities established by the fund, then, of course, there is no problem with respect to this agreement.

By Mr. Hackett:

Q. They are fixed by order in council?—A. Yes. Previous to that the Governor in Council could establish the rates at which customs duties could be collected.

By Mr. Fraser:

Q. I heard announced over the radio this morning, if I heard rightly, that the United States in future would value goods shipped into the states without

adding the sales tax. Now, that would mean that the United States, when this agreement is signed—the United States could never go back and add that sales tax in?—A. Not when she signs this agreement. That is correct.

By Mr. Fulton:

Q. With regard to that section Mr. Jaenicke read with respect to the Customs Tariff Act, could we use that not to retaliate but to minimize the effect of what we regarded as an unfair devaluation by any country? Suppose France without the consent of the monetary fund cut the franc in two, could we, under this section with the Bank of Canada, disregard France's action and say that for our purposes the franc would remain at the old rate?—A. Yes, because in that case this agreement would not apply, because the French rate is not one agreed to by international agreement. Whatever declaration the Bank of Canada made to the customs authority could be applied. That would be a possibility in looking after our own situation if anything like that happened.

The VICE CHAIRMAN: Article III.

The WITNESS: Article III—that article is quite an important article, one corner-stone of this agreement. It is entitled "National treatment on internal taxation and regulation".

By Mr. Timmins:

Q. What happens if we give subventions to some of our own commodities? That is a domestic arrangement, is it? We are giving a subvention to western coal coming down to eastern Canada and suppose by reason of that we are able to manufacture something cheaper?—A. That refers to the subsidy clauses of this charter, which come later. There is nothing in this agreement which prevents us paying subsidies on coal.

Mr. FULTON: This is an amazing agreement; it does not seem to mean what it says.

The WITNESS: You have to read it more carefully, Mr. Fulton.

The first paragraph marked 1 states that you must treat your imports and domestic produced commodities the same with respect to the imposition of any taxes or charges. In other words, you cannot by an internal tax device provide protection.

The WITNESS: The word national treatment means you must give treatment to imported products equal with national products and that is how the word national enters into it.

Mr. FULTON: In other words, the only way by which you can have discrimination is by custom tariffs?

The WITNESS: That is right. If you want to protect a domestic commodity you may do it by tariff and if you have not bound yourself you are free to do so.

By Mr. Hackett:

Q. We have been talking about New Zealand and New Zealand had a method of subsidizing butter for export. Would that be excluded?—A. That is a subsidy.

Q. Well, the people in New Zealand paid more for butter than is being asked for it abroad?—A. For the purposes of this agreement that is regarded as a subsidy.

Q. And permissible?—A. If it is purely on exports it not generally permissible.

Q. I understand that, but we have been permitting preferences where they have acquired the status of some years?—A. There is an exception to that again in the subsidy section, I want to discuss the subsidy matters when

we come to that section. The subsidy clauses of this agreement are different from the subsidy clauses of the charter and I want to keep those distinctions clear until we come to the subsidy section. We do not want to confuse the issue here.

By Mr. Quelch:

Q. Have we yet bound ourselves to the tariff on oleomargarine?—A. No. The second paragraph relates to internal laws and regulations and requirements affecting the sale, purchase, transportation or distribution of any commodity you may not impose more rigorous requirements upon the imports than you are imposing upon goods of domestic production. Let me give an example.

By Mr. Fraser:

Q. This allows cheap transportation we will say from Alberta for coal coming from there?—A. Yes, but that is a subsidy again.

Q. That is quite in order?—A. I might give this example. Suppose you said that imports of a certain commodity must reach a certain standard as to size. You might say they must be of a certain size and you might have a regulation of that kind applying to imports but not applying equally to domestic products. That is discrimination against the imports and would be ruled out under this agreement.

By Mr. Timmins:

Q. Supposing it was sales tax such as there is in British Columbia and the article was coming in—A. That is dealt with in the first paragraph.

Q. Yes?—A. That is a charge. All charges on imports and on domestic production would have to be the same under paragraph 1. I am talking about things other than charges, namely regulations as such. There are all kinds of regulations you might apply.

Mr. LESAGE: For instance the foodstuffs standards regulations?

The WITNESS: Yes, you might apply a particular regulation with respect to an imported commodity but not apply it to domestic produce and that would be discrimination in favour of the domestic produce, which is ruled out under this agreement. You must give national treatment. In other words the treatment to the imports must be the same as that given to the domestic item. Obviously without a rule of this kind you could frustrate any agreement that you make with another country by simply imposing a great series of discriminatory regulations against the imports. If that situation is not covered, obviously there is little accomplished by simply binding the tariffs because you can circumvent those bindings by these regulations. Indeed those regulations were used in some countries. They were used before the war to a great extent in central Europe, and therefore there had to be a clause of this kind otherwise the thing was meaningless.

By Mr. Quelch:

Q. I was going to say if you were producing a certain commodity of certain size and you imported the same commodity of another size, if you make your regulation or tax only applicable to the one size and not to the other—in which case you might tax the import without taxing your own product—you would still be complying with these regulations?—A. I do not think I quite understand that.

Q. I mean to say if you are producing a certain commodity of a certain size in this country, growing it a certain size and you graded it—A. Yes.

Q. And you imported the same commodity but of a larger size—A. I see.

Q. Then you could pass a regulation that the tax would only apply to the commodity of the larger size?—A. Yes, to the larger size and since you do not produce it—

Q. The agreement would not apply?—A. That depends. That is not quite a clear-cut issue because if you were to do that for the specific purpose of protecting your domestic product, the article of smaller size—

Mr. McKINNON: —which might be a substitute—

The WITNESS: Yes, it might be a very similar article or substitute. If it is done for the main purpose of protecting the domestic product or item it would not be permitted but if it was a genuine case of taxation and the imported commodity was not a competitor of the domestically produced commodity, then that tax would be all right.

By Mr. Blackmore:

Q. The sole judge of that purpose would be the I.T.O.—A. Not the sole judge. The country would make its case and if it convinced other countries it would be all right.

Q. Supposing we take this coal situation and we just refer back to No. 2—the end of No. 2. I am not sure I can read into it just what you say is there. I hope it is there.

Q. I am not sure about it. There is a provision in this paragraph which says: "The provisions of this paragraph shall not prevent the application of differential transportation charges"; now, a subvention would come under that clause, wouldn't it?—A. Subvention being subsidies?

Mr. FRASER: You should read that full sentence.

Mr. BLACKMORE: I didn't read it because I didn't want to go over the whole thing. I will read it:

The provision of this paragraph shall not prevent the application of differential transportation charges which are based exclusively on the economic operation of the means of transport and not on the nationality of the product.

Now, suppose we put on a sufficient subvention to bring Alberta coal down into Ontario; primarily, our objective is putting our own coal into use rather than using United States coal.

The WITNESS: What do you mean by subvention, Mr. Blackmore. Do you mean the government—

Mr. BLACKMORE: Puts it up.

The WITNESS: —pays part of the freight?

Mr. BLACKMORE: Yes.

The WITNESS: That is a subsidy as far as this clause is concerned.

Mr. BLACKMORE: Then it would be off?

The WITNESS: No, a subsidy of that kind is permitted in this agreement. Subsidies clauses come later on in this agreement and I will explain them there. For your information now, a domestic subsidy of that kind is clearly within the provisions of this agreement. This particular clause does not say anything about subsidies. The explanation of this clause is this; I mean, of this sentence. It is well known that railway rates are not uniform.

Mr. JAENICKE: No.

The WITNESS: That is well known; and that the rates applying to differing commodities going the same distances may be quite different. In other words, one ton of a certain type of commodity will move at such and such a rate over 400 miles, and another ton of another commodity may move at an entirely different rate 400 miles. They both weigh the same amount, and as far as the

actual cost of transportation is concerned, the cost is exactly the same, but the railway rates are different. And all this says is, that such different rates if they are based on economic considerations shall be permitted, but if that difference in rates is based not on economic considerations but is based on the foreign origin of the goods, then it shall not be permitted. In other words, if the difference in rates were due to the fact that the goods originated in the United States—it would be a protective device. But if the rate applies regardless of origin the fact that there is a differential would not be contrary to this agreement.

By Mr. Black (Cumberland):

Q. You are interpreting this to us, but who is to interpret it in actual practice?—A. The representatives of the countries who have signed this agreement. All I can say to you, sir, is my understanding. Obviously, I cannot read the minds of other people.

By Mr. Blackmore:

Q. The one difficulty we will come to, Mr. Chairman, we are treating your opinion with complete deference. At the same time, the words here are pretty difficult to get that meaning out of. It says here definitely, if the differential in transportation charges is based exclusively on the economic operation of the means of transportation, it is so. Then, in your judgment, that would cover a subvention from the west to Ontario?—A. I am saying that this does not refer to a subvention. The question of subventions is dealt with in another article of this agreement and we shall come to that in due course. This does not relate to subventions paid by the government.

Q. May we have you tell us once more to what it does refer?—A. It refers to rates charged by railway companies. As I said before, the rates which are charged on shipments of equal weight for equal distances vary between commodities, even though, on the face of it there seems to be no basis for such variation. In actual fact, all the railway systems of the world have these differentials. All we are doing here is to say that fact is recognized and shall not be regarded as a contravention of this agreement.

By Mr. Quelch:

Q. At the end it says, "not on the nationality of the product"?—A. Provided that differential is not there for the purpose of treating unfavourably a product from another country. In other words, discriminating against countries. So long as it does not discriminate against a country, the differential is permitted.

By Mr. Blackmore:

Q. Isn't that exactly what we would be doing if we wanted to use Alberta coal instead of United States coal and used a subvention to bring it down into Ontario?—A. The subvention is a subsidy and not what the railway charges. Actually, the railway charges are paid and the government rebates a portion of it; that is permitted and is dealt with in another part.

By Mr. Quelch:

Q. We have domestic and export rates. There is a difference there and that is not a subvention. We have a different rate for domestic and for export. Would that be allowed under this agreement?—A. Our feeling is it is permissible under this agreement.

Q. Yet, you are differentiating between the national product?—A. We are not differentiating there between countries. We are differentiating with respect to the destination of our own goods.

Q. You could not have a difference between the domestic rate and the import rate?—A. You could not have that if that differentiation was there for the specific purpose of providing protection. Then you could not have it. If it was there for a proper purpose as far as railway economics are concerned then it would be permissible. In other words, if the railway could demonstrate that its economic operations required that the rate on the imports should be higher than it is on the domestic product, and that is due to the fact that such differentiation results in the most economical operation of that railroad then it would be permitted. In other words, it is a question of deliberate intent to discriminate against imports. That is ruled out, but if it is not deliberate intent to discriminate against imports then a differential is allowed. That is the point of this clause.

MR. HACKETT: If Mr. Quelch's question has been answered I was going to move that we adjourn.

By Mr. Quelch:

Q. I was just thinking that the reason we have a difference between the export rate and the domestic rate is to help our exports?—A. Yes, and it does not say anything about exports here.

Q. I was wondering if it would not work vice versa on the question of imports and the domestic rate?—A. It does not quite work vice versa. It depends on the purpose.

THE VICE-CHAIRMAN: Have we exhausted the questions on subsection 2?

MR. LESAGE: We finished article III.

MR. BLACKMORE: We are not finished with article III.

THE VICE-CHAIRMAN: We are at subsection 3. We will start there the next time.

MR. BLACKMORE: Subsection 3 of article III.

THE VICE-CHAIRMAN: The meeting is adjourned until Tuesday at 10.25 a.m.

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Committee on 1947/48

(SESSION 1947-1948

HOUSE OF COMMONS

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STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7

Subject-matter of the General Agreement on Tariffs and Trade,
including the Protocol of Provisional Application thereof,
together with the Complementary Agreement of
October 30, 1947, between Canada and the
United States of America.

TUESDAY, MAY 11, 1948

WITNESSES:

Mr. F. H. Zwicker, First Vice-President, Fisheries Council of Canada;
Mr. Hubert R. Kemp, Director of Commercial Relations Division, Department of Trade and Commerce.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY

1948

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, ROOM 430,

TUESDAY, May 11, 1948.

The Standing Committee on Banking and Commerce met this day at 10.30 o'clock a.m. Mr. G. Edouard Rinfret, Vice-Chairman, presided.

Members present: Messrs. Argue, Benidickson, Black (*Cumberland*), Blackmore, Breithaupt, Dechène, Fraser, Harris (*Danforth*), Hazen, Isnor, Jackman, Jaenicke, Marquis, Michaud, Rinfret, Timmins.

In attendance: Mr. F. H. Zwicker, Lunenburg, N.S., First Vice-President, Fisheries Council of Canada and Past President, Canadian Atlantic Salt Fish Exporters Association; Mr. C. D. Penney, Vancouver, B.C., Salmon Cannery Operating Committee, Member Organization of Fisheries Council of Canada; Dr. Stewart Bates, Deputy Minister of Fisheries; Mr. H. B. McKinnon, Chairman of the Tariff Board; Mr. R. Cousineau, of the Tariff Board; Mr. J. J. Deutsch, Director of the Economic Relations Division, Department of Finance; Mr. Hubert R. Kemp, Director of Commercial Relations Division; Mr. A. L. Neale and Mr. G. C. Cowper, of the Department of Trade and Commerce; Mr. McLure, M.P.; Mr. Emmerson, M.P.; Mr. Winters, M.P.

The Vice-Chairman read a communication from Mr. D. L. Morrell, Executive Secretary of the Canadian Chamber of Commerce. (*See Minutes of Evidence*). He also informed the Committee that Mr. T. Oakley, President of Canadian Importers and Traders Association, Inc., would be unable to attend on Thursday, May 13, 1948. The Clerk was instructed to advise Mr. Oakley that the Committee would hear him on Thursday, May 20, 1948.

Mr. F. H. Zwicker was called. The witness presented a brief on behalf of Fisheries Council of Canada, was questioned at length thereon, and he retired.

Mr. C. D. Penney informed the Committee that his associate had been unavoidably delayed en route to Ottawa and asked that his deposition be postponed. It was agreed to defer the presentation until Thursday, May 13th.

Mr. Hubert R. Kemp was called and examined. The witness was questioned in regard to the brief presented earlier by Mr. Zwicker.

At 12.15 o'clock p.m., the Committee adjourned to meet again at 8.30 o'clock p.m., Thursday, May 13, 1948.

ANTOINE CHASSE,

Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons,

May 11, 1948.

The Standing Committee on Banking and Commerce met this day at 10.30 a.m. The Vice-Chairman, Mr. E. Rinfret, presided.

The VICE-CHAIRMAN: Gentlemen, will you please come to order. First of all I want to indicate to the committee a letter which I have received from the Canadian Chamber of Commerce in reply to our letter of the 30th of April. It is addressed to Mr. Chassé, the clerk of the committee, and reads as follows:

In reply to your letter of April 30th, please be advised that after due consideration the Foreign Trade Committee of the Canadian Chamber of Commerce has decided to make no representations before the House of Commons Standing Committee on Banking and Commerce in connection with the Geneva trade agreements.

We wish to take this opportunity to thank you and the committee for your courtesy in providing the opportunity to appear, but, as the Chamber has previously made representations in this connection, it is felt that no useful purpose would be served in occupying the time of the committee at present.

It is signed by Mr. D. L. Morrell.

At the last meeting we instructed the clerk of the committee to communicate with the Canadian Importers and Traders Association, inviting them to attend here on May 13. Apparently that date is not satisfactory and the association has asked whether it will be possible for the committee to meet them the following week. If so they will be glad to arrange a time to suit our convenience. I suppose it will be in order to ask these people to come before the committee on Tuesday next, that is, a week from to-day; and if so I will so advise the clerk.

Now, gentlemen, we were asked by the Fisheries Council of Canada for permission to appear before the committee, and I think the Council is represented here to-day by Mr. Zwicker and Mr. Penney. I shall ask Mr. Zwicker to come to the witness stand.

F. H. Zwicker, First Vice-President, Fisheries Council of Canada, called:

The VICE-CHAIRMAN: Now, gentlemen, is it your wish that Mr. Zwicker should explain the brief which he wishes to submit first and then submit to questioning?

Mr. JAENICKE: Yes.

The VICE-CHAIRMAN: Will you proceed, Mr. Zwicker?

The WITNESS: Mr. Chairman and gentlemen, this is a brief which was submitted to the Department of Trade and Commerce by the Canadian Atlantic

Salt Fish Exporters Association, and the Canadian Atlantic Salt Fish Exporters Association is a member of the Fisheries Council of Canada, and the Fisheries Council of Canada is made up of member associations across Canada.

By Mr. Jaenicke:

Q. Do you represent the Fisheries Council as well?—A. Indirectly.

Q. Of whom is the Fisheries Council made up—what are the organizations?—A. Fisheries associations right across Canada. This happens to be a problem local to our own organization, the Canadian Atlantic Salt Fish Exporters Association. The Fisheries Council of Canada is, so to speak, a holding company for other associations.

Q. Does it include fishermen themselves?—A. It includes some co-operatives, yes, in Quebec and the maritime provinces.

Mr. ISNOR: Are you connected with the Fisheries Council of Canada?

The WITNESS: I am first vice president.

Mr. FRASER: That includes processors of fish, does it?

The WITNESS: Producers, processors and wholesalers. This brief has reference to section 719(2) of the brief that was submitted to the Tariff Board prior to the Geneva trade agreement wherein our original brief on the tariff agreement pointed out that salted ground fish of a moisture content of under 43 per cent had a rate of duty applied going to the United States of $\frac{5}{8}$ of a cent while fish over 43 per cent had a rate of duty of $\frac{3}{4}$ of a cent, and we requested that the same rate of duty apply to fish whether over or under 43 per cent. I have samples here of three fish of various moisture content, which I would like to open a little later so you can readily get a quick picture of the practical part of the argument. As a result of the Geneva trade agreement the duty was reduced by $\frac{1}{8}$ of a cent a pound in each case. On the fish not over 43 per cent it was brought down to $\frac{1}{2}$ cent per pound and on fish over 43 per cent it was brought down to $\frac{1}{4}$ of a cent.

Mr. JAENICKE: Is that our duty or the duty in the United States?

The WITNESS: The duty in the United States applies. We requested that the Tariff Board ask the United States to make the rate of duty the same for both classes of fish.

The purpose of this brief is to request the necessary action on the part of the Canadian government to effect the removal of a form of discrimination—unintentional, but nevertheless serious—against Canadian salt fish in the U.S. continental and territorial markets, which we had hoped would be corrected as a result of representations made on our behalf at the recent Geneva conference, but which has not been corrected, possibly because our submission was included among other applications and regarded as one of several to which the 50 per cent basis of reduction could apply, instead of being regarded as one for special consideration.

In our opinion this is of sufficient importance to the salt fish industry of Canada to justify the Canadian government negotiating it separately, especially as the removal of the discrimination referred to will not adversely affect a United States industry.

By Mr. Fraser:

Q. May I ask a question? Are any fish of a like kind being imported into Canada?—A. No.

Q. Are they being imported from the United States into Canada?—A. No, nor does the United States produce any of these fish themselves.

Q. Thank you.—A. The brief with the attached schedule "A", was submitted by this association to the Department of Trade and Commerce, at Ottawa, on February 11, 1946.

It is now evident that paragraphs 4-5-6 of our brief were understated for, in a brief submitted by Gorton Pew Fisheries Co., Ltd. to the U.S. committee for Reciprocity Information, they state:—

Since 1948 the fresh codfish landed in the New England states is no longer salted but sold in either fresh, frozen or canned form The United States has come to depend on foreign sources for its supply of salt fish, which is imported principally from Canada, Newfoundland or Iceland.

Since it is admitted that fish landed at New England ports is no longer salted, our requested equalization in the tariff rates on dried salt fish under 43 per cent maximum moisture content, and fish over 43 per cent would not adversely affect a U.S. industry, there is therefore no valid reason why the U.S. government should not grant it when supported by the facts of the case.

The New England fisheries interests (including Gorton Pew Ltd.) import green-salted fish which is processed into boneless, thus providing employment in New England. Boneless, however, comes under a separate tariff item—719 (3) and this brief does not concern that item.

The differential in the rate of duty on fish over and under 43 per cent maximum moisture content was made in the interests of the New England cutting trade which imports large quantities of green-salted fish for processing into boneless. Fish of 43 per cent maximum moisture content is not used for processing into boneless, the average moisture content being 53-58 per cent, but the dividing line was apparently set extremely low in order to obviate any possible delay in clearing the fish through U.S. customs upon arrival, in the event that the shipment included some rather dry fish.

I think, at this point, Mr. Chairman, I should like to open up these samples. You will notice I have this one bound up in oilcloth. That particular fish is one I got from a Lunenburg firm which puts up boneless and was taken right out of their vat. This is a fish definitely under 43 per cent. You will notice I am holding it out, but it is not bending. It is a dry fish that goes to Puerto Rico and is definitely under 43 per cent. I imagine it is around 41 or 42 per cent.

By Mr. Fraser:

Q. That has to be dried like that on account of the hot climate in Puerto Rico and southern countries has it not?—A. So it will keep in the hot humid countries.

Q. I have seen that kind of fish hanging up in the market places.—A. That is right.

By Mr. Hazen:

Q. Does that fish you have shown us pay $\frac{1}{2}$ cent?—A. That is the one; that is the fish that is penalized under the U.S. tariff.

Q. It pays $\frac{1}{2}$ cent per pound duty?—A. That is right.

This fish here—you can see that it is wet and dripping though it was taken out of the pickle a week ago—you can see the difference: the fish is over 50 per cent moisture content. That fish was the reason that the Gloucester boneless people wanted to import that at a lower rate of duty so that they could make it into boneless and compete with Canadian boneless fish going into the United States.

By Mr. Fraser:

Q. It that shipped into the United States in that condition or is it frozen first?—A. No, in that condition. They are shipped in large quantities and there is a lower rate of duty because the New England cutting trade wanted it in order to get the price down to compete with the Canadian boneless coming into the country.

By Mr. McLure:

Q. What is the duty on that?—A. It is $\frac{1}{4}$ cent under the new arrangement and it is $\frac{1}{2}$ cent for dry fish.

By Mr. Jaenicke:

Q. What was it before the Geneva agreement?—A. Five-eighths of a cent.

Q. For both?—A. No, $\frac{3}{8}$ ths and $\frac{5}{8}$ ths. Now, the chief trouble comes in this particular fish which is not dried and not as hard as the other one, but is suitable for semi-tropical countries. It is bent but it has a dry face; it is not a wet fish like this one. If you over dry it—it is quite a science drying fish and getting them to the correct moisture content you want—and if you get it a little over dry and it goes into the country, your purchaser is very much annoyed that he has to pay that high rate of duty that applies to the dry fish.

By Mr. Isnor:

Q. What is the moisture content on the one you hold in your left hand?—A. Over 43 per cent; it is about 43 per cent. I wanted to exaggerate all these samples a bit, except this one which is typical. It came from Robin, Jones and Whitman's Lunenburg Branch. Where the salt fish exporters in the maritime provinces got into trouble was that Newfoundland was able to produce in Labrador a fish of about this moisture content. It was processed in cool weather with reasonably good keeping qualities.

Q. Which moisture content?—A. Over 43, something like this one I have in my hand. They sent it down to Puerto Rico with the result they captured the whole Puerto Rico market, or the best part of it. Now, this is the whole trouble. I believe from 1912 to 1922 all fish entered the United States free. Then at that time a new tariff was set up.

By the Vice-Chairman:

Q. The 50 per cent one?—A. The 50 per cent one—well, over 43 was where they divided it. They made a very definite mistake in the dividing line. If they had made it 50 per cent we would not have had any trouble getting this fish in.

Q. When you say "this" that is the 45 per cent one, we will call it?—A. Yes, that is right. We would not have lost our market in Puerto Rico on account of this wetter type of fish. Incidentally this is not a suitable fish to send to the tropics.

Q. That is the 45 per cent one?—A. Yes.

By Mr. Fraser:

Q. When you send that down to Puerto Rico do you have to have special refrigeration for it? The other one would not need refrigeration.—A. No, they will keep two or three weeks on a passage down. When it got down there it went into cold storage or cool storage, not cold, and it spoiled very quickly when it was taken out of cold storage. In 1922 the rate of duty on this wet fish was

$\frac{3}{4}$ of a cent a pound, and under 43 per cent, this fish here, it was 1 $\frac{1}{4}$ cents. Why that was ever done would be hard to imagine. It is hard to imagine why all fish could not have gone in at the same rate of duty. The only explanation is the New England cutting trade wanted this fish at the lower rate,

By the Vice-Chairman:

Q. The wet one?—A. The wet one at the reduced rate. I suppose it can be assumed the United States government wanted the revenue on this other fish. Even at that time the United States was not producing this drier type. They were producing a proportion of these over 50 per cent type. Does anybody have any questions on these before I put them away?

By Mr. Fraser:

Q. Tell us in dollars what amount of that fish is shipped out of here, or do you know?—A. No, I could not answer that offhand.

Q. Do you know the tonnage of each?

By Mr. Isnor:

Q. You know your export value from the maritimes on cod?—A. I am sorry, it is not right in my head at the moment.

By Mr. Fraser:

Q. What I wanted to do was to split them up between the different ones so we would have an idea how much was shipped into the United States. That is not in your brief?—A. No, I do not think it is.

Q. I do not think so.—A. It was established in the Senate committee inquiry. I think Mr. Kemp brought out the figures.

Mr. McKINNON: Mr. Kemp will be able to give these various figures when he gives his evidence.

By Mr. Hazen:

Q. Paragraph 7 of your brief which you have just read speaks of green salted fish. Would you explain what a green salted fish is? Is a green salted fish a fish which contains more than 43 per cent water content?—A. Very definitely. A green salted fish will contain anywhere from 52 to 60 per cent. I would imagine it is about 55 per cent water, if not 60.

By Mr. Jaenicke:

Q. You told us they were producing fish in Newfoundland and they had obtained an advantage over the Canadian fish in Puerto Rico, is it?—A. Yes, known as the Labrador slop.

Q. How did they get that advantage?—A. By being able to produce it in a colder climate than Nova Scotia.

Q. And it was of a similar moisture content?—A. No, a higher moisture content. The Labrador slop is a kench cured fish. There is a layer of fish, a layer of salt, a layer of fish, and a layer of salt spread in a kench in a shed. The United States put the low rate of duty on this fish in 1922, what is known as a pickled fish. It is put in a barrel or vat. You sprinkle salt on it and enough water comes out of the fish to make its own pickle. They leave it there probably for a month or six weeks. That is how that fish is cured, and that was what originally the United States asked for the low rate of duty on that fish suitable for the boneless trade. You notice also that fish, because it has been in pickle, is much thicker than this other fish. That is what the boneless people want. They must have it thick and wet in order to take the skin off it

properly and take the bones out. Then they press some of the water out of it and package it. There is very little drying in connection with it. It is another process. We would not be having this meeting here today if the dividing line of the moisture content had been put say at 50 per cent because it probably would not have affected these other fish of slightly over and under 43 per cent. That dividing line was a vicious thing, and brought on in ignorance of the conditions at the time.

By Mr. Isnor:

Q. You referred to a moisture content of 45 per cent?—A. One fish here, yes.

Q. The duty on that entering the United States is how much?—A. It is $\frac{1}{4}$ now, I believe. I do not know whether that has gone into effect. It is either $\frac{3}{8}$ or $\frac{1}{4}$.

Q. That is over 43 per cent?—A. That is right.

Q. And it is $\frac{1}{4}$ of a cent?—A. If you send in a wet fish—

Q. Just a minute. I want to couple up the other question. What is the duty on the Newfoundland fish of the same moisture content entering the United States?—A. The same.

Q. Then there is no discrimination so far as that particular fish is concerned?—A. No, except it is not practicable for us to produce this fish over 43 per cent for export. This thing is getting mixed up between continental United States and Puerto Rico.

Q. I was dealing with your statement in regard to Newfoundland, and I wanted to find out as to whether there was any discrimination in respect of Canadian cod of 45 per cent moisture as compared to similar fish entering the United States from Newfoundland.—A. No.

Q. There is no difference there. Then it is the Puerto Rico market in which you are particularly interested?—A. That is right. When this fish was on quota going into the United States during the war under export permit control you could send 150 pounds of fish over 43 per cent whereas those of us having dry fish could only send 100 pounds.

By Mr. Hazen:

Q. Did I not understand you to say that the Newfoundland or Labrador fish which contained 45 per cent moisture content could be sent to Puerto Rico and pay a duty of $\frac{1}{4}$ of a cent a pound while the Canadian fish that went to Puerto Rico and contained 45 per cent moisture would have to pay a duty of $\frac{1}{2}$ cent a pound?—A. No.

Q. I am wrong?—A. No, that is not right.

Mr. JAENICKE: The way I understand it—

Mr. ISNOR: Would you allow the witness to answer Mr. Hazen, please?

By Mr. Hazen:

Q. Would you clear that up for us? Let us understand this. I understood you to say that a fish containing 45 per cent moisture content, if processed in Labrador or Newfoundland, would enter Puerto Rico and pay $\frac{1}{4}$ of a cent a pound duty.—A. That is right.

Q. While one of our fish from the maritimes entering Puerto Rico and containing 45 per cent moisture content would pay $\frac{1}{2}$ a cent per pound duty?—A. No.

Q. What is the position?

Mr. JAENICKE: The position is—

Mr. HAZEN: Let the witness answer.

The WITNESS: No, I said it was not practicable, I did not think, for Canada to ship fish over 43 per cent moisture content to tropical markets on account of spoilage, and that Labrador did have an advantage over us in that the curing was all done in cold weather, and no deterioration set in their fish, so they had a much better advantage of sending a higher moisture content fish down to the tropics which had reasonably good keeping qualities, and which we in Nova Scotia could not do. It is true we can send fish down over 43 per cent, and we have done it, but it is liable to turn out bad. We may have claims, etc.

By Mr. Isnor:

Q. Where does the discrimination come in? I think that is what we want to get. We want to find out what is your contention as to discrimination against Nova Scotia fish?—A. I probably did not make myself clear there. It is discrimination against dry fish. That is the point.

Q. It is the dry fish?—A. Fish under 43 per cent. We cannot understand why that should be discriminated against for this wet fish, more especially so since that lower rate of duty was put on for the New England boneless trade. Newfoundland was cute enough to see the possibility of getting in on the lower rate of duty by sending this particular kind of fish into Puerto Rico.

By Mr. Black:

Q. If Newfoundland wanted to send dry fish there they would pay the same duty as we would?—A. That is right, and they do ship some of it, but their dry fish is discriminated against in the United States the same as ours is. There is no difference in the status of Canada and Newfoundland except in nature.

Q. But the difference in duty is this $\frac{1}{4}$ of a cent a pound?—A. That is right. It originally started out at $1\frac{1}{4}$ cents in 1922 on dry fish and $\frac{3}{4}$ of a cent on the wet fish. Then in 1939 there was a new tariff—I forget the name of it—put forward.

Mr. McKINNON: Trade negotiations.

The WITNESS: Trade negotiations, and the duty at that time was reduced on dry fish to $\frac{5}{8}$ ths and on wet fish to $\frac{3}{8}$ ths. I think that is right.

By Mr. Black:

Q. The dividing line for duty purposes of 43 per cent moisture content has been in effect since when?—A. 1922.

By Mr. Jaenicke:

Q. Did you experience competition with Newfoundland before?—A. No.

Q. If that rule about moisture content has been in force since 1922 it is funny you did not come across that before.—A. At that time Newfoundland was shipping the bulk of their fish to Europe, and they did not take advantage of that until the 30's. I have that all very nicely set out in a report I made for the dominion government in 1938 known as "Markets for dried and pickled fish."

Q. You objected then?—A. Very strenuously. Both Mr. O. F. Mackenzie and myself wrote our own reports, and they were not in collusion at all. We had not seen what the other one wrote. Mr. Mackenzie devotes four or five pages to bringing out the subject in one manner and I do it in a totally different way with tables and charts in my part of the report. This report was issued in 1938, and our request was not taken into account in the tariff negotiations in 1939. It was just left as it was.

By Mr. Black:

Q. Would the trade not give a preference to Nova Scotia dry fish under 43 per cent moisture over Newfoundland or Labrador fish of 43 per cent? If they are offered at the same price which would get the preference?—A. I think it is human nature for anybody to buy the commodity that is cheaper, and this fish having more water in it naturally has a cheaper price.

Q. The trade would give preference to the dry Nova Scotia fish over the Newfoundland fish carrying a moisture content of more than 43 per cent?—A. That did not prove to be the case, and it is not even the case today. Puerto Rico will still buy the cheaper commodity, and they also want the lower rate of duty, and the fish is landed at a cheaper cost to them. They do run the risk of deterioration. The dry fish will keep better.

By Mr. Jaenicke:

Q. What is the weight of one of these fish dry and wet? What would be the approximate weight?—A. That dry one I held up I imagine would be about 4 pounds, and the others would be about 6 or 7, the wet one.

By Mr. Hazen:

Q. Did you say this matter had been brought before a Senate committee?—A. Yes.

Q. When was that?—A. About a month or so ago—before Christmas, December 18.

Q. Was there any report made, or do you know what happened then?—A. No, the report was printed. That is all I know.

By Mr. Isnor:

Q. Did you appear before that committee?—A. No, I did not have enough notice.

Q. Who did appear before that committee?—A. Senator Robertson asked a few questions.

Q. Was there a representative from the Department of Trade and Commerce before that committee?

The VICE-CHAIRMAN: I think Mr. Kemp appeared before the committee.

By Mr. Isnor:

Q. Mr. Kemp appeared before that committee?—A. Yes.

Q. Did you read his evidence?—A. Yes.

Q. You have it there?—A. Yes.

Q. Would you care to comment in regard to his evidence?—A. Yes, I would be glad to. Mr. Kemp made a statement quite similar to what I read here in the first part of my remarks pointing out that the result of the agreement was that $\frac{1}{8}$ of a cent had been taken off in each case. The chairman asked the question:—

One eighth of a cent in each case?

Mr. Kemp's reply was:

That is right, sir. Now, the trade statistics for 1939 show that in 1939 we exported to the United States \$81,000 worth under 43 per cent, and \$925,000 worth over 43 per cent moisture. So that, at least at that time, the exports over 43 per cent moisture were eleven times—between eleven and twelve times—as great as the exports under 43 per cent moisture.

I should like to add the reason is New England cannot get on without that product. They must have it. Even if there was an export duty applied in Canada they would still buy it.

By Mr. Jaenicke:

Q. That is the wet fish?—A. Yes.

By Mr. Fraser:

Q. They do not buy any of the dry fish.—A. They buy some of that middle quality.

Q. The middle quality, but any of the very dry?—A. No, unless they buy a bit for re-export, but the very dry does go into Puerto Rico.

By Mr. Isnor:

Q. We already know that in cents there has been a gradual reduction that really should have worked to your advantage. What is your real point at the present time? What do you recommend this committee should consider?—A. What we wanted to see in Nova Scotia since long before 1938 was the same rate of duty for any salt fish going into the United States, and not have the hard dry fish discriminated against. That is our complaint.

Q. You recommend doing away with the dividing line of 43 per cent?—A. That is right.

By Mr. Fraser:

Q. Even if it went up in value of duty, bring them both up to the same level?—A. That would be a dangerous thing for me to comment on. I would get in very bad with my competitors in the other part of the trade. What we wanted to see brought about at Geneva was the $\frac{5}{8}$ brought down to $\frac{3}{8}$.

By Mr. Argue:

Q. Do you know if representations have ever been made to the American officials asking that that be done?—A. I could not answer that.

By Mr. Isnor:

Q. But you did present a brief last November, was it, along the very lines you are recommending now to the Department of Trade and Commerce?—A. We did that before they went to Geneva.

Mr. ARGUE: Made representations to whom?

Mr. ISNOR: The Department of Trade and Commerce.

By Mr. Argue:

Q. But you do not know what they did at Geneva, whether they asked that that be done or not?—A. I believe they did, but I do not think the thing was sufficiently understood.

Q. What I am getting at is, what do you want this committee to do, because it is the American government apparently that is applying the duty?—A. That is right.

Q. If we agree with you then what would you wish us to do on your behalf?—A. We understand that further negotiations may be in the offing, and at that time the matter should be straightened out once and for all, and all put on the one basis. I fully appreciate the position of the tariff board. When they went to Geneva they knew that the Americans could only reduce their duties 50 per cent on any one item. Actually what we asked at that time was that the heavy wet fish be left as it was and the dry be brought down so that we could get out of this vicious cycle because if each time this thing comes up they are going to reduce both grades 50 per cent there is always going to be a differential.

Q. Or if the 43 per cent dividing line was changed to 50 per cent that would meet a great many of your objections?—A. That would meet a good many of our objections; that is right.

By Mr. Hazen:

Q. Have any representations been made to the United States government since the Geneva conference?—A. I did see—on this particular item?

Q. Yes.—A. I do not think so.

Q. I notice you said in your brief:

There is, therefore, no valid reason why the United States Government should not grant it when supported by the facts of the case.

—A. We meant if it were taken up specially and Congress did something. These other downward adjustments have been made by authorization of the president with his powers to reduce duties 50 per cent.

By the Vice-Chairman:

Q. In your recommendation would there also be a point in changing the division line from 43 per cent and raising it to 50 per cent? Is that one of your recommendations?—A. That would be the second recommendation. The first one would be to equalize the duties, to bring the rate of duty on the dry fish down to the rate of duty on the wet fish. That would be number one. If that could not be accomplished then raise the dividing line.

Q. To what point?—A. Fifty per cent.

By Mr. Fraser:

Q. Can you tell us what your loss in trade has been on account of Newfoundland?—A. That is all set out in this Mackenzie Zwicker report over a term of years. The loss is all set out there.

By Mr. Isnor:

Q. As I recall it that report does not touch on the American market, does it? Does that not deal almost entirely with the— —A. With Puerto Rico?

Q. Yes.—A. I think that is more or less correct, yes. We tried to point out in that report in 1938 that this dividing line of duty was put in only for the boneless trade, and nobody anticipated at that time that any exporter to the south would be taking advantage of that moisture content and it would apply in Puerto Rico.

Q. As to the two recommendations that you have made to this committee do you feel there would be any opposition from the American fishing interests?—A. No.

Q. You do not anticipate any?—A. Positively none. They are not in the business. They are just in as buyers. They do not produce. I think I am correct they went out of their dry salt fish business in the late 20's. The Americans might protest on the loss of a little revenue. I do not know about that, but I would hardly think so when you get down to $\frac{1}{2}$ and $\frac{1}{4}$ of a cent a pound. It has more of a nuisance value to them than anything else.

By Mr. Jaenicke:

Q. Would that processed fish which the New England people process out of the green salted fish be in competition with your dry fish in the United States? Might that be the reason for the differential?—A. No.

Q. What do the American processors do with that green salted fish?—A. They make it into boneless fish.

Q. Does that compete with your dry fish?—A. Oh, no.

Q. I am trying to find out if there is any reason for the differential in the two.—A. I would love to know that myself.

By Mr. Black:

Q. Suppose Canada produces boneless fish the same as they are producing. What is the duty on it going from Canada into the United States, processed

boneless fish?—A. I think that is $1\frac{1}{2}$ cents today. Incidentally, Canada would be much better off economically if she processed all her fish and sent it into the United States as boneless, and not send our raw material out of the country to be processed there.

By Mr. Isnor:

Q. Why do you not do that?—A. We are not in that type of business ourselves. I suppose it can be done, but then you would have terrific howls from the New England boneless trade who are established in that business, and incidentally they have producing plants here in Canada, and also one in Newfoundland.

Q. They have one in Halifax, have they not: Sea Foods Limited—do they not process?—A. I do not know. I do not think they do.

Q. If you could make use of all the fish that you produce, and process them here, would this country as a whole and the maritimes be better off?—A. Definitely.

Q. In your opinion?—A. In my opinion, yes. I understand that happened with lumber—that the manufactured articles went into the States at better proportional commission than the board lumber.

Q. Well, I have a figure of manufactured lumber—the dollar value of lumber—the dollar value of sawn lumber falls into the value of three times on a manufactured article, and I was wondering whether the same thing would apply to fish?—A. Boneless, roughly, going into the United States I think sells around 25 cents a pound f.o.b. Nova Scotia, whereas this heavy fish I hold up has a value of around 9 cents a pound.

Q. Yes, there is the same thing—three times the value; therefore we would be a great deal better off?—A. Yes, but the New England states would raise a terrific howl.

Q. We are thinking of ourselves at the present time.—A. That is right.

Mr. HAZEN: The United States controls the duty.

Mr. ISNOR: We have two recommendations from the witness. Has he anything further to say?

Mr. BLACK: As I understand the witness, his suggestion is that the duty be reduced from 1 cent to $\frac{1}{4}$ of a cent; that is reducing it by $\frac{3}{4}$, am I right?

The WITNESS: No, from $\frac{1}{2}$ to $\frac{1}{4}$.

Mr. BLACK: It is already reduced from 1 cent to $\frac{1}{2}$ cent.

The WITNESS: That was in 1939.

Mr. ISNOR: We had it reduced from $\frac{5}{8}$ ths to $\frac{1}{2}$, and in the other case, under 43 per cent, from $\frac{3}{8}$ ths to $\frac{2}{8}$ ths, or $\frac{1}{4}$. What Mr. Zwicker is recommending is that it all be at the one rate; is that right?

The WITNESS: That is right.

The VICE-CHAIRMAN: Have you any more questions to ask this gentleman? Mr. Zwicker, is there anything further you would like to say? You did not finish reading your report, but perhaps you have covered it in your remarks.

Mr. ISNOR: Mr. Zwicker had better look over the brief and see if there is any important point he has missed.

The WITNESS: It will just take me a moment to finish reading it.

Mr. FRASER: I do not think you mentioned how much Canada is losing in dollars and cents in the exporting. You say Newfoundland has taken that trade from us. You do not know how much that is in dollars and cents? Perhaps Mr. Kemp knows that.

Mr. KEMP: I have some figures here.

The WITNESS: I did set that out in this report in 1938. With your permission I shall continue to read my report.

The result, not foreseen at that time, is that very shortly thereafter it was discovered that fish dried to slightly over 43 per cent maximum moisture content could be exported from countries other than Canada and, having the advantage of the lower rate of duty, could be sold in competition with Canadian fish. There have therefore been two rates of duty on dried salt fish—That is the fish which are on the border line of 43. There are two rates; the other, according to laboratory tests, at the border line, going over—one rate on fish up to 43 per cent and another on fish very slightly over 43 per cent maximum moisture content. This anomaly should be removed as it was never intended that there should be two rates of duty on dried salt fish imported into U.S. continental and territorial markets. Since that time Canadian fish has experienced this added competition, and incidentally, the U.S. treasury has lost the differential in duty as the lower rate of duty was never intended to apply to dried salt fish, but only to fish imported for the cutting trade.

It should be added that, because of climatic conditions Canadian cured fish above 43 per cent maximum moisture content has not the keeping qualities in Puerto Rico that fish has when caught and processed in the colder climates of Labrador, etc., to that extent Canadian fish cannot be exported in fair competition with that of other competing countries, as under existing conditions of a lower rate of duty for dried salt fish of the higher moisture content, importers are inclined to stipulate that fish carrying the lower rate of duty be shipped. This is not in the best interests of the Canadian industry.

It is therefore requested that representation be made to the U.S. government to equalize the rates of duty on dried salt fish at the lower rate. The low-salaried people, particularly in Puerto Rico where dried salt fish is a staple item of diet, and also continental U.S.A. where dried salt fish is a common item in the daily menu of people in the low income group in certain districts would benefit. The U.S. treasury losses would be insignificant as the amount of duty now derived from these two items is negligible. Since the differential was set in 1922 the rates then being 2½c and 1½c respectively, the rates of duty have been steadily reduced until they are now ½c and ¼c per pound respectively.

SCHEDULE A

Copy of Brief

RECOMMENDING APPLICATION TO U.S.A. FOR REDUCTION
IN RATE OF DUTY ON DRIED SALT FISH, TO THE
PRESENT RATE OF DUTY ON GREEN-SALTED
FISH IMPORTED INTO U.S.A. AND
PUERTO RICO

Reference is made to U.S.A. tariff items, paragraph 719, Tariff Act 1930, as amended:

Canada-U.S. Agreement
January 1, 1939

Commodities

Cod, haddock, hake, pollock, and cusk,
neither skinned nor boned (except that
the vertebral column may be removed)

When containing not more than 43 percentum of moisture by weight.....	¾c per pound
When containing more than 43 per- centum of moisture by weight.....	¾c per pound

(1) This Association recommends application for a reduction in rate of duty on dried salt fish to the prevailing rate of duty on green salted fish.

(2) The rates prior to 50 per cent reduction effected by Canada-U.S. agreement, January 1, 1939, were $1\frac{1}{4}$ c and $\frac{3}{4}$ c per pound respectively.

(3) Originally both classes of commodity referred to carried the same rate of duty, the lower rate for green salted fish being introduced upon representation of New England interests some twenty years ago, in order to permit of selling the finished product—boneless fish—processed in New England from Canadian (or Newfoundland) green-salted fish, in competition with the imported fully processed article.

(4) U.S.A. imports 50 per cent of the material used in boneless trade and it is not suggested that any change be made in the prevailing rate of duty on green-salted fish imported for that purpose.

(5) The higher rate of duty for dried salt fish is not necessary for the protection of a dried salt fish industry in U.S.A. as U.S.A. does not produce any sizeable quantity of dried salt fish for either domestic or export trade.

(6) U.S.A. trade statistics may show exports of dried salt fish. By far the greater volume of such fish is not produced in U.S.A. but acquired by New York and other commission houses, or similar interests from Canada or Newfoundland for re-export.

(7) Dried salt fish is a staple article of diet in Puerto Rico, as in all Caribbean countries, being an important protein food on which the poorer class of the population depend, and the proposed reduction of $\frac{1}{4}$ c per pound could be passed on to the consumer without materially affecting the U.S.A. revenue from customs duties.

Respectfully submitted,

CANADIAN ATLANTIC SALT FISH EXPORTERS ASSOCIATION.

February 11, 1946.

Mr. ISNOR: Does that complete your brief?

The VICE-CHAIRMAN: Is there anything you want to explain on schedule "A", or is that a repetition of your brief?

The WITNESS: That is pretty well a repetition. Schedule "A" was in the brief originally submitted to the Tariff Board.

By Mr. Isnor:

Q. Will you turn to the report of 1938 and look up your export business to Puerto Rico for the different years?—A. Will I give it to you in pounds?

Q. I think the committee would understand it better if you gave it in dollars and cents.—A. I just have my figures in pounds.

Q. Then give it to us in pounds.

By Mr. Jaenicke:

Q. What is it worth a pound at the seaboard?—A. An average price? Around 10 cents—varying. Today's prices are approximately 16 cents.

Q. That is O.K. Give it to us in pounds.—A. From 1925 to 1929, United States statistics, imports on dry and green salt cod entering the United States and Puerto Rico combined—an average of 1925 to 1929: Newfoundland had exported 6,315,000 pounds; other countries 3,491,000 pounds; Canada 22,337,000 pounds.

In 1936 that had changed. Incidentally, the total at that time was 32,143,000 pounds. In 1936 there was a total of exports of 55,511,000 pounds, other countries exported into the United States 3,874,000 pounds; Newfoundland had gone up to 26,828,000 pounds; Canada had gone to 24,809,000 pounds.

The VICE-CHAIRMAN: Canada remained approximately in the same position and Newfoundland was four times as much?

The WITNESS: Yes, but they made that gain in Puerto Rico. I have separate totals here for Puerto Rico. There is a table here which is of interest: United States statistics, imports of dried and green salted fish in the United States only; Canada, in the 1936 period, 21,657,000 pounds—that was for the cutting trade—compared with 1925-29 when the United States were in the business, producing their own fish, only 7,000,000 pounds; and the United States statistics, imports of dried and green salted cod into Puerto Rico: in 1925-29 Newfoundland and other countries, out of a total of 16,682,000 pounds had 6,899,000 pounds, and Canada had 9,783,000 pounds.

By Mr. Isnor:

Q. Now, give us the last year.—A. In 1936, out of 28,599,000 pounds Newfoundland had 27,900,000 pounds and Canada had dropped to 1,590,000 pounds.

Q. That is your answer. It shows a clear picture.—A. And all that happened because the New England cutting trade got a lower rate of duty and Newfoundland was able to take advantage. Incidentally, they do not supply any fish for the New England cutting trade.

The VICE-CHAIRMAN: Are there any other matters you would like to discuss?

The WITNESS: No, sir.

The VICE-CHAIRMAN: Are there any other questions, gentlemen? If not, thank you, Mr. Zwicker.

Now, Mr. C. D. Penney is here and I will ask him to come forward.

Mr. PENNEY: Mr. Chairman, my colleague has been grounded in Chicago and we expect him late this afternoon; therefore, I am without a brief to put to the committee. I wonder if it would be possible to have a postponement?

Mr. ISNOR: Perhaps Mr. Penney would tell us whom he represents?

Mr. PENNEY: I represent the Salmon Cannery Operating Committee.

The VICE-CHAIRMAN: Mr. Penney is not dealing with cod. Perhaps we should have Mr. Kemp come to the stand and have Mr. Kemp deal with the question of cod, and have Mr. Penney's request granted, his request for a postponement. Till when, Mr. Penney?

Mr. PENNEY: Until Thursday. I understand that is your next meeting time.

The VICE-CHAIRMAN: That is a matter for the committee to decide.

Mr. PENNEY: Thursday would be satisfactory.

Mr. HAZEN: I thought you were going to hear from Mr. Kemp.

The VICE-CHAIRMAN: Exactly. That is the suggestion I made to the committee. Could we not hear from Mr. Kemp now about these salt cod?

H. R. Kemp, Director of Commercial Relations Division, Department of Trade and Commerce, called:

The VICE-CHAIRMAN: Mr. Kemp, there are two recommendations that have been made to the committee by Mr. Zwicker who represents the Canadian Atlantic Salt Fish Exporters Association. The first is that the same rate of

duty should apply on dried fish and wet fish; secondly, that the dividing line between the wet and dried fish be raised to 50 per cent. Would you give to the committee your comments on those two recommendations?

Mr. ISNOR: Before we proceed, I wonder if Mr. Kemp would tell us as to whether he directly or indirectly prior to attending the Geneva conference, had received representations from the Canadian Atlantic Salt Fish Exporters?

The WITNESS: Yes, sir.

Mr. ISNOR: And you dealt with their brief; and did you present it along the lines they suggested?

The WITNESS: No, sir. We studied their brief; and I would like to give you an explanation of the background of the matter and what happened at Geneva, if I may, before discussing the two recommendations.

Mr. FRASER: That is good enough.

The WITNESS: To begin with, Mr. Chairman, just to get the matter in perspective, perhaps I might say a word or two about the magnitude of the duties we are talking about. Mr. Zwicker showed the committee a very dry fish which weighed about four pounds. Now, if that fish—that is the driest one he showed us—if that fish were exported to the United States the duty on it would be two cents. He also showed us a fish that was not quite so dry as that and weighed, I would imagine, about the same amount.

Mr. ISNOR: He said it was six pounds.

The WITNESS: In that case the duty on the six-pound fish would be three cents.

Mr. JAENICKE: No, no.

The WITNESS: The rate of duty on the dry is $\frac{1}{2}$ cent a pound. There are two rates of duty involved, one is on the fish that contains less than 43 per cent of moisture, and the other on the fish that contains more than 43 per cent of moisture. I might call them the dry fish and the wet fish. On the wet fish the rate of duty at the present time is a $\frac{1}{4}$ of a cent a pound, so that on a six-pound fish the duty would be $1\frac{1}{2}$ cents.

Mr. JAENICKE: You said it was three cents.

The WITNESS: If, however, that fish had been further dried—that is if it contained less than 43 per cent of moisture—the duty would be $\frac{1}{2}$ cent a pound, making three cents duty on the whole fish. So that the difference between the two rates of duty as applied to this six-pound fish which was exhibited to the committee is the difference between three cents if it were fully dried and $1\frac{1}{2}$ cents if it is wetter.

Mr. ISNOR: The one thing you do not appreciate is that if the same fish were dried it would not weigh the six pounds.

The WITNESS: That is right, sir.

Mr. JAENICKE: I say this, that that duty on the wet fish is $1\frac{1}{2}$ cents and the duty on the dried fish is 2 cents.

The WITNESS: If we are taking a fish that weighs six pounds in each case the duty on the wet fish would be $1\frac{1}{2}$ cents and the duty on the dried fish would be 3 cents.

Now, if you further dry that fish it will weigh less than six pounds, and what it will weigh will depend upon how much you dry it. The duty on it will then be less than 3 cents, and that also depends upon how much moisture is left in it. If you are going to pay duty on water you obviously pay more duty than if you are paying duty only on fish.

Mr. FRASER: It does not pay to have the fish dry.

The WITNESS: If it were very, very dry the duty on that fish in the dried condition might go to 2 cents as compared to 1½ cents if you do not dry it. So that the difference between the rate of duty under the two conditions will probably be somewhere around 1 cent on the whole fish.

Now, if I may put it in terms of percentage, at recent prices of fish the rate of duty on dried fish is approximately 3 per cent and the rate of duty on wet fish is approximately 2 per cent. There are very few duties in the United States tariff that are as low as that, unless the item is altogether free. There are very few rates of duty in the Canadian tariff that are as low as 3 per cent and 2 per cent, unless the article is completely free. The rates have been successively lowered, and the percentage equivalent has automatically come down as a result of the rise in the price of fish during recent years. Those remarks are just to show the size of the difference in duty that we are talking about.

Mr. FRASER: You mention that the duty is very low, but on account of the fish being sold in the south, where those fish are being shipped, the people down there use pesos and their money is so small and they receive so little that the small amount in duty would mean quite a lot to them.

The WITNESS: That is quite true.

Mr. FRASER: We have to take that into account.

The WITNESS: Absolutely.

Mr. FRASER: Whereas here or in the United States that amount would not much matter.

The WITNESS: I do not wish to minimize the thing. An extra cent even on the price of a six-pound fish means a cent to them down there, and that is something.

Mr. FRASER: It means a lot to them.

The WITNESS: Now, before the Canadian delegation went to Geneva, as Mr. Zwicker has said, we received these briefs including his, which we studied carefully and discussed, as I recall it, with Mr. Zwicker himself and the other members of the Fisheries Council who were here in Ottawa and talked over their brief. I had the privilege of being present at a meeting of the Fisheries Council at which a number of these briefs were discussed. We were quite aware of the position that was being taken by the organization. Before leaving for Geneva the Canadian delegation discussed quite extensively what should be the policy in asking for concessions on these items from the United States.

The delegation also had before it a good many figures about the balance of trade between Canada and the United States. It was realized at that time that it would be necessary to get a good many concessions in the United States to permit trade to such an extent as would do us any good in the face of this situation which was already manifest, although, of course, in the last year it has become even more so.

With regard to fish, the feeling was that we ought not to turn down any concession we could get, but on the contrary we should ask for every concession we had a chance of getting.

Now, it was necessary to decide what should be the policy with regard to dry fish and wet fish. There was a brief from Mr. Zwicker's organization representing the drying interests principally. There was no brief representing the people who were sending down the wet fish. Those people however exist and are very numerous. Maybe this is the point where it would help to bring in a few statistics, which can be put on the record if the committee so desires; and rather

than read all the figures from this table, perhaps if I just touch on the relevant ones here it would be sufficient. You will have the whole table before you when you have the printed report of the hearing.

EXCERPTS FROM UNITED STATES STATISTICS SHOWING IMPORTS
OF DRY AND GREEN SALTED COD INTO THE UNITED STATES
(INCLUDING PUERTO RICO)

Dry Salted (i.e. *not* more than 43 per cent moisture)

TARIFF RATE

	Smoot-Hawley—1½c lb.	1939 Agreement—½c lb.	Geneva—½c lb.
	Imports into United States		
Year	Total	From Canada Values in \$1000	From Newfoundland
1937	150	78	25
1938	286	92	151
1939	286	81	140
1941	862	300	528
1943	3194	724	2469
1947	2758	1333	1416

Green Salted (i.e. *more* than 43 per cent moisture).

TARIFF RATE

	Smoot-Hawley—¾c lb.	1939 Agreement—¾c lb.	Geneva—¾c lb.
	Imports into United States		
Year	Total	From Canada Values in \$1000	From Newfoundland
1937	2008	893	1056
1938	1534	661	833
1939	1767	925	712
1941	2085	1300	744
1943	1651	1218	376
1947	2653	962	1572

In 1937 we exported from Canada of dried fish \$78,000 worth and of wet fish \$893,000 worth. In that year, therefore, we exported about eleven times as much of the wet fish as we did of the dried fish. To a considerable extent these wet fish come from the Gaspé and New Brunswick. The producers did not send in briefs, but they nevertheless were interested in this business, and they had a big business on which they were interested in getting concessions.

In 1938, of dry fish we exported \$92,000, and of wet fish \$661,000; the wet fish were worth about seven times as much as the dry fish.

In 1939 we exported dry fish valued at \$81,000 and wet fish valued at \$925,000—between eleven and twelve times as much of the wet fish as of the dry fish. 1939 was the last pre-war year.

In 1941 we exported \$300,000 worth of dry fish, and \$1,300,000 worth of wet fish. That is something over four times as much.

In 1943 we exported \$724,000 worth of dry fish and \$1,218,000 worth of wet fish. The ratio was going down, but the wet fish still represented a very much larger amount than the dry.

Now, we come to the year 1947. We did not have these figures in Geneva because the negotiations took place around June 1947, before the year was over. In 1947 we exported \$1,333,000 of dried fish and \$962,000 of wet fish. So in 1947 for the first time in this series of years the exports of dry fish exceeded in value the export of the wet fish. But on the pre-war figures, which formed the basis of most of the discussions, as you will notice, we were exporting from seven to twelve times as much of the wet fish as we were of the dry fish. And

the feeling was that it was necessary to take account not only of the dry fish interests which were represented in the brief referred to, but also of the interests of those who were shipping the wet fish, even though they had not put in a brief to support their interests.

There was also a third interest involved in Geneva, and that is the interest of the Newfoundland people. We could not go to Geneva and ask our American friends to give us a concession on this amount of dry fish in which we have an interest, but not to give any concession to the Newfoundlanders on the wet fish in which they have an interest. That would obviously have been impossible. The Newfoundlanders wanted this concession and were recognized by the United States as having an equal right with ourselves to negotiate for it.

We have here, for example, published material prepared by the United States Tariff Commission on this subject. In it they recognize Canada as the negotiating country for the dry fish, while for the wet fish they recognize both Canada and the United Kingdom in the right of Newfoundland on an equal footing. Even if we had not made a request on this matter, the wet fish concession would in all probability have been made to Newfoundland. Newfoundland is a country without very much variety of exports. There is no doubt that the United States authorities would have wanted to do something for them. There are not very many things on which they could do anything that would be helpful to Newfoundland. We have strong reason to believe that they had Newfoundland interests in mind just as much as ours in making this particular concession.

By Mr. Isnor:

Q. If two parties are making a bargain you would be particularly interested in something you wanted for your country and not the other countries, would you not?—A. That is right, sir.

Q. Now, in the case of fish, the New England fishing concerns require the wet fish, and there is already an established market and demand; therefore, I would think that you would concentrate on the dried fish?—A. Well, we did, sir, in this sense, that we asked our American friends for the biggest concession they could possibly give us on both these items.

Q. My point is that the wet fish market was established, and therefore there is no need to stress the wet fish market; but there was not as far as dried fish were concerned and that is where you should have got greater concessions.—A. Well, sir, we did our best on the dried fish end; but we did not feel, in view of the general position of Canada with regard to its whole balance of trade position with the United States, that we could afford to pass up making a request on behalf of the wet fish interests, which on the basis of pre-war figures represented ten or twelve times as much trade as the dry fish, important as the dry fish interests were recognized to be. May I now pass on?

By Mr. Black:

Q. Before you pass on I should like to get confirmation of the change in the duty if Mr. Zwicker's representations were acted on. What was the original duty under the Smoot-Hawley tariff on the dry fish and what was it when you started negotiations, and what would it be if it were reduced to the same as the wet fish?—A. Under the Smoot-Hawley tariff the duty on the dry fish was $1\frac{1}{4}$ cents a pound. This was reduced by the 1938 agreement to $\frac{5}{8}$ of a cent a pound. That is half of what it was under the Smoot-Hawley tariff. At Geneva it was reduced from $\frac{5}{8}$ to $\frac{1}{2}$ a cent a pound, which was not the maximum cut they could have made but was a substantial cut.

Q. Mr. Zwicker requested that it be reduced from $\frac{1}{2}$ to $\frac{1}{4}$ as one of his requests?—A. Yes. Perhaps I had better give you green salted rates parallel with those. Under the Smoot-Hawley tariff the rate was $\frac{3}{4}$ of a cent a pound.

In the 1938 agreement it was reduced to $\frac{3}{8}$, being half of the former rate, and at Geneva it was reduced to $\frac{1}{4}$. The powers of the president at Geneva were, as you know, limited to a 50 per cent cut in the rate of duty existing on January 1, 1945. The rate of duty on dry salted at that time was $\frac{5}{8}$ of a cent a pound, so that he could not have reduced that to $\frac{1}{4}$ of a cent a pound even if he had wanted to do so. Furthermore he could not have changed the boundary line from 43 per cent moisture content to some other amount if it would have had the result of reducing the rate of duty on some fish from $\frac{5}{8}$ of a cent a pound to $\frac{1}{4}$ of a cent a pound. He was, to that extent, obliged to leave the boundary line where it was.

Q. That is as I understood it, but Mr. Zwicker did not make it clear to me.

Mr. ISNOR: What do you mean by that?

Mr. BLACK: Well, more than a 50 per cent reduction. If the duty is reduced to the wet fish level there is more than a 50 per cent reduction.

The WITNESS: Yes, that is true.

Mr. ISNOR: But apart from that Mr. Zwicker's representation is to endeavour to bring it down. That is all it is.

Mr. BLACK: I understand that.

The WITNESS: As I understand it Mr. Zwicker's representations to the committee today are not by way of criticism of what was done in Geneva so much as a suggestion to the committee, and to future negotiators on behalf of Canada, whoever, they may be, as to what ought to be done in the future if we get another opportunity to negotiate with the United States on the fish question.

Mr. BLACK: I am in sympathy with what Mr. Zwicker wants but I want to understand the basis of it.

The WITNESS: I think we should say on behalf of the negotiators that this is a useful representation because it puts it very clearly on the record what this industry would like to have done, assuming that the question comes up again for negotiation at a future date. Now, it is not known what the position may be when that happens. No doubt when the subject comes up to be discussed again Newfoundland will still have an interest. It is very likely that both Newfoundland and Canada may be interested in further concessions on the items which are of chief importance to them. That remains to be seen. A very happy solution of the whole problem would be, if it were possible, for the United States at some time in the future to decide to take the duty completely off both kinds of fish. That would wipe out the distinction between the two, and it would be very helpful to both Canada and Newfoundland. The United States negotiators could not have done that at Geneva because they had no power to transfer anything from the dutiable to the free list: but it is conceivable that some such possibility might exist at some time in the future. I think perhaps that is all I can say as a general statement. It may be there are questions.

By the Vice-Chairman:

Q. Mr. Zwicker did not say anything like this, but is it not a fact that as a consequence of the Geneva agreement the discrimination is worse than it was before?—A. It remains the same, sir. The difference between the two rates of duty before Geneva was $\frac{1}{4}$ of a cent, and at Geneva they were both brought down by $\frac{1}{4}$ of a cent, so that the difference between the two still continues to be $\frac{1}{4}$ of a cent a pound.

Q. If you take $\frac{1}{8}$ cent off a smaller amount it is bound to reduce it more than the other.—A. The duties before Geneva were $\frac{5}{8}$ and $\frac{3}{8}$. Now they have become $\frac{2}{8}$ and $\frac{4}{8}$.

Q. Exactly.—A. So that the difference between the two rates was $\frac{1}{4}$ of a cent a pound before Geneva and it is still $\frac{1}{4}$ of a cent a pound.

Q. Yes, but the differential between the two is not the same as $\frac{1}{4}$ to $\frac{1}{2}$.—A. Putting it on a percentage basis, you mean, as a percentage of the value—

Q. If you reduce an article which is selling at 3 cents by 1 cent and you reduce another article which is selling at 5 cents by 1 cent the differential will be worse on a percentage basis? A reduction of 1 cent on a 3 cent item would represent 33 per cent whereas if you reduce a 5 cent article by 1 cent you will have only a 20 per cent reduction.—A. That is perfectly true.

Q. Therefore the discrimination is worse than it was before.—A. If you wish to calculate it on that basis, sir; the arithmetic is perfectly correct.

Mr. ISNOR: That is the point Mr. Zwicker endeavoured to bring out.

The VICE-CHAIRMAN: Are there any other questions of Mr. Kemp?

Mr. FRASER: When Mr. Zwicker was giving evidence he gave us the price of a fish. I think he said 10 cents a pound.

Mr. ZWICKER: For the heavy wet fish.

Mr. FRASER: What about the dry fish? Did you give us the figure on that?

Mr. ZWICKER: I was not asked.

Mr. FRASER: I am asking now.

Mr. ZWICKER: Export price, f.o.b. export price?

Mr. FRASER: What is the other price, the 10 cent price? Is that export or at the plant?

Mr. ZWICKER: That would be at the plant.

Mr. FRASER: Then give us the price on the dry fish at the plant.

Mr. ZWICKER: About 16 cents roughly.

Mr. FRASER: 16 cents a pound?

Mr. ZWICKER: Average, yes.

By Mr. Isnor:

Q. Mr. Kemp, the power vested in the representative of the United States was that he could not cut more than 50 per cent. Is that it?—A. Right.

Q. I think we have a similar situation back in 1920 when there was a change made, and Congress then took the power, or the president was authorized by Congress to make a greater reduction than was permissible by the law at that time. Would it be possible to bring anything like that about by continued negotiations?—A. I am glad you have brought that point up because I neglected to cover it in what I said before. The powers that were given to the president on the latest extension of the Reciprocal Trade Agreement Act were to cut the rate of duty by not more than 50 per cent of the amount that it was on the 1st of January, 1945. The president has now exercised those powers, as we understand. He has not in every case cut the duty by 50 per cent. He has not in this case, for example, but he has nevertheless completed an exercise of his powers under that arrangement. Assuming that we went back to the United States and asked them to consider a further cut on this item, as we understand it, the United States law would require the president to go through all the prescribed formalities from the beginning. He would have to advertise his intention to negotiate again. He would have to allow a period of 30 days notice. He would then have to hold public hearings at which all people concerned would have the right to appear, and finally he would then have to conduct negotiations with the other country concerned. All of this would take a good deal of time which is obviously not available before the probable close of the present session of Congress. Therefore he would probably not be able, using the powers which he has under the existing law, to complete any further negotiations before the time when Congress is likely to end its proceedings.

Could action be taken under treaty procedure? There are only two methods of negotiating in such a case: either by the use of the presidential powers or through a treaty made under the authority of Congress. It is perfectly possible from the legal and constitutional point of view that the treaty procedure might be followed: although we believe that Congress has so heavy a program for the present session that it is not very likely that they would be able to find time for any further trade negotiations during the present session or, indeed, during the present year.

Q. Would it be possible to bring in a change if Newfoundland was agreeable to the position as advanced by Canada?—A. It would depend upon what either the president or Congress might be willing to do. I should have added that the president's powers under the Reciprocal Trade Agreement Act will lapse on the 12th of June of this year unless before that time Congress shall have taken action to extend them.

By Mr. Fraser:

Q. In this country all we need is an order in council to change it.—A. That is right.

Q. And dated back if we want to.—A. That is right. Of course, Congress also has the constitutional power to date anything back, but so far as the president's powers are concerned they are circumscribed by the existing law.

By Mr. Black:

Q. What he has already done continues effective though?—A. Yes, sir.

Mr. FRASER: Here we can have an order in council go through and next day a countermanding order in council.

Mr. ISNOR: You mean to say you wish to show how lucky we are in that respect?

The WITNESS: I am not sure whether a countermanding order could be made in this case because I understand that while a duty can be reduced by order in council it cannot be increased by order in council. I am not an authority on that point.

Mr. FRASER: I think Mr. Deutsch said it could not be increased.

Mr. DEUTSCH: Could not be increased.

The VICE-CHAIRMAN: Are there any more questions, gentlemen? Thank you very much Mr. Kemp. Gentlemen, Mr. Penney of the Salmon Cannery Operating Association will be available to us on Thursday night, if it is agreeable to the committee to adjourn the meeting until then.

Mr. FRASER: I move we adjourn.

Mr. ISNOR: Before we adjourn, in the meantime Mr. Penney has suggested that we might pass around the brief. Is that right?

Mr. PENNEY: I have not them to pass around. That is the point. I will have them tomorrow.

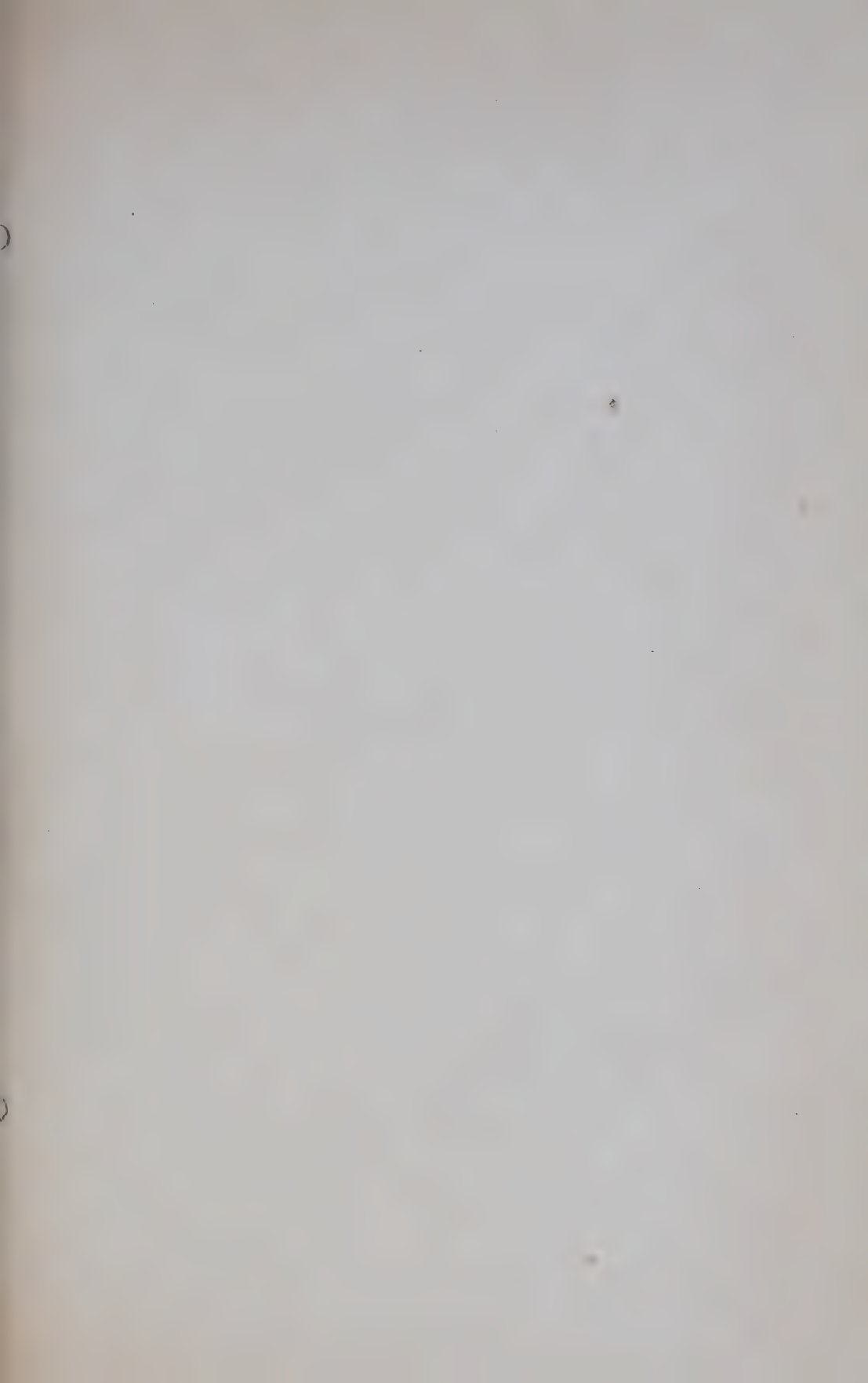
The VICE-CHAIRMAN: Gentlemen, there is a further matter. It has been brought to my attention that Tuesday night next is the budget night so we will not be able to hear Mr. Oakley then. We will communicate with him and ask him to be here on Thursday.

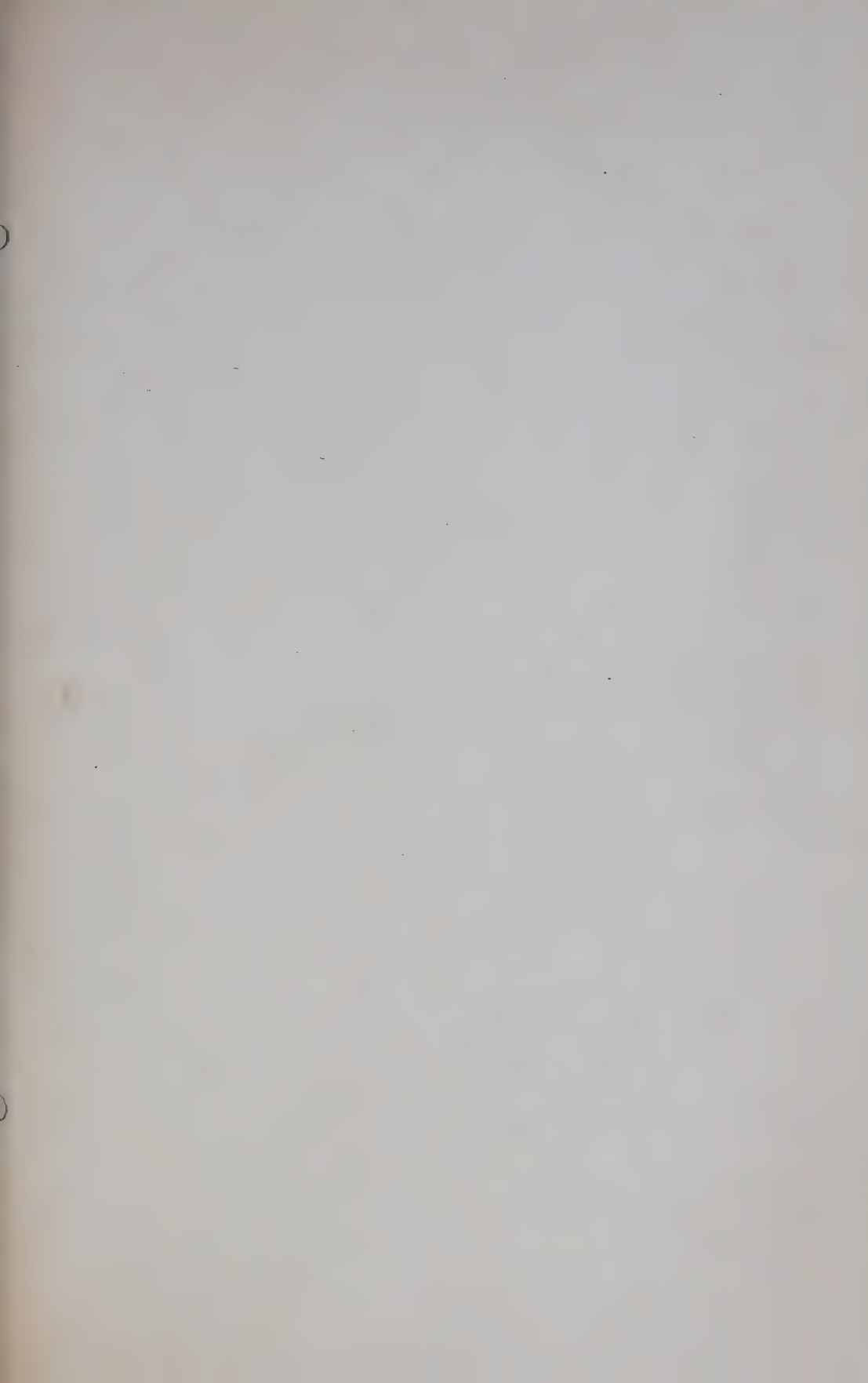
Mr. FRASER: Mr. Penney said he will have the brief tomorrow. Will they be distributed to members of the committee tomorrow?

The VICE-CHAIRMAN: If the committee so wishes.

Mr. BLACKMORE: Is that this coming Thursday?

The VICE-CHAIRMAN: Mr. Oakley the following Thursday and Mr. Penney this Thursday. May I suggest that Mr. Penney give copies of his brief to the clerk of the committee who will look after the distribution. The meeting is adjourned.





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HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 8

Subject-matter of the General Agreement on Tariffs and Trade,
including the Protocol of Provisional Application thereof,
together with the Complementary Agreement of
October 30, 1947, between Canada and the
United States of America.

THURSDAY, MAY 13, 1948

WITNESSES:

Mr. C. D. Penney, Vancouver, B.C.;

Mr. Hubert R. Kemp, Director of Commercial Relations Division,
Department of Trade and Commerce;

Mr. J. J. Deutsch, Director of Economic Relations Division, Department
of Finance.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, ROOM 430,

THURSDAY, May 13, 1948.

The Standing Committee on Banking and Commerce met at 8.30 o'clock p.m. Mr. G. Edouard Rinfret, Vice-Chairman, presided.

Members present: Messrs. Abbott, Argue, Black (*Cumberland*), Breithaupt, Dionne (*Beauce*), Fraser, Gour (*Russell*), Hazen, Irvine, Isnor, Jaenicke, Low, Macdonnell (*Muskoka-Ontario*), Marquis, Michaud, Pinard, Quelch, Rinfret, Smith (*York North*), Timmins.

In attendance: Mr. Clare D. Penney and Mr. Angus C. Findlay, Vancouver, B.C., representing Salmon Cannery's Operating Committee; Miss F. Lobe, of Fisheries Council of Canada; Mr. H. B. McKinnon, Chairman of the Tariff Board, Mr. W. J. Callaghan, Commissioner of Tariffs; Mr. R. Cousineau, of the Tariff Board; Mr. J. J. Deutsch, Director of the Economic Relations Division, Department of Finance; Mr. Hubert R. Kemp, Director of Commercial Relations Division, Mr. Louis Couillard, Commercial Relations and Foreign Tariffs, Mr. A. L. Neale and Mr. G. C. Cowper, of the Department of Trade and Commerce.

In opening the proceedings the Vice-Chairman informed the Committee that Bill 220, An Act to amend the Loan Companies Act had been referred to the Committee. After some discussion, it was agreed that the Committee would proceed with the study of the said Bill on Thursday, May 27, 1948.

Whereupon, Mr. Jaenicke gave notice of an amendment he would propose when the Committee consider the said Bill. (*Terms of the said amendment appear in today's Minutes of Evidence*).

Mr. C. D. Penney was called. The witness presented a brief on behalf of Salmon Cannery's Operating Committee, and was questioned thereon.

Mr. H. R. Kemp, of the Department of Trade and Commerce, was called in relation to the said brief.

Mr. J. J. Deutsch, of the Department of Finance, was also called to clarify certain points arising out of the discussion pertaining to Mr. Penney's deposition.

Mr. Sinclair, M.P. (*Vancouver North*), by unanimous consent, was permitted to ask certain questions of the witnesses.

Further discussion took place concerning future sittings. It was finally agreed that the Committee would meet at 4.00 o'clock p.m., Tuesday, May 18, and again at 10.30 o'clock a.m., 4.00 o'clock p.m., and 8.30 o'clock p.m., on Thursday, May 20, 1948.

At 10.30 o'clock p.m., on motion of Mr. Marquis, the Committee adjourned to meet again next Tuesday, May 18.

ANTOINE CHASSÉ,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

May 13, 1948.

The Standing Committee on Banking and Commerce met this day at 8.30 p.m. The Vice-Chairman, Mr. E. Rinfret, presided.

The VICE-CHAIRMAN: Gentlemen, shall we come to order?

There has been referred to us Bill No. 220, the Loans Companies Act. I understand that Mr. Jaenicke would like to make a suggestion.

Mr. JAENICKE: Yes, Mr. Chairman. We are not going into it tonight but I would like to propose an amendment to some sections of the act pertaining to the amendments proposed and to be found in the bill before us, and I should like to put in my amendment tonight so that it could be printed in our proceedings and then the members could have in their hands before our next sitting. I therefore move, seconded by Mr. Argue:—

1. That the Loan Companies Act, Chapter 28, of the revised Statutes of Canada 1927 and amendments thereto be amended by inserting the following section between Sections 25 and 26 of the said Act:—

25A. (1) Any member of a company who complains that the affairs of the company are being conducted not with a view to the interest of the whole body of members, but in a manner oppressive to some part of them (including himself), may make an application to the court by petition for an order under this section.

(2) If on any such petition the court is of opinion

(a) that the company's affairs are being conducted as aforesaid; and

(b) that to wind up the company would unfairly prejudice that part of the members, but otherwise the facts would justify the making of a winding up order on the ground that it was just and equitable that the company should be wound up;

the court may, with a view to bringing to an end the matters complained of, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future, or for the purchase of the petitioner's shares by other members of the company, or for the surrender and cancellation of the petitioner's shares and the reduction accordingly of the company's capital, or otherwise.

(3) Where an order under this section makes any alteration in or addition to any company's memorandum or articles, then notwithstanding anything in the principal Act but subject to the provisions of the order the company concerned shall not have power without the leave of the court to make any further alteration in or addition to the memorandum or articles inconsistent with the provisions of the order; but, subject to the foregoing provisions of this subsection, the alterations or additions made by the order shall be of the same effect as if duly made by resolution of the company and the principal Act shall apply to the memorandum or articles as so altered or added to accordingly.

(4) Any order under this section altering or adding to, or giving leave to alter or add to, a company's memorandum or articles shall,

within fourteen days after the making thereof, be delivered by the company to the Superintendent of Insurance for registration.

(5) The term "court" mentioned in this section shall mean the court as defined in the Companies Act in Chapter 27 of the revised Statutes of Canada 1927.

2. That the subsection 4 of Section 30 of the said Act be amended by inserting between the words "thereof" and "be" in the fourth line of the said subsection the following words: "Subject to the consent of the Minister".

3. By further amending the said Section 30 by adding thereto subparagraph 9 as follows:—

9. The foregoing provisions contained in subsections 1 to 8 hereof shall not take effect until the Minister has given his consent thereto in accordance with the following provisions:—

- (a) After the company has complied with the provisions of subsections 1, 2, 3, and 4 hereof, the directors shall give notice to the Superintendent of Insurance of the shares to be forfeited stating the name and address of the shareholder, the amount of shares allotted to him, the dates and amounts of the calls made thereon, and the amount paid thereon;
- (b) The Superintendent of Insurance shall submit such report, together with such other facts pertaining to the company, to the minister;
- (c) The Minister may cause such inquiries to be made as he deems advisable and just, and he may give his refusal or consent to such forfeiture, and if the company is not indebted to the public, may order the company to issue a fully paid up share or shares to the shareholder in default, for such amount, not exceeding the amount actually paid thereon, as to him may seem just and proper.

Mr. IRVINE: When would these be likely to be put, will they be out before the bill comes up?

The VICE-CHAIRMAN: That is the next thing I wanted to bring to the attention of the committee. I am afraid that Mr. Deutsch and Mr. McKinnon will not be able to attend our meetings on the 25th, the 26th and the 27th, so I was going to suggest to the committee that we take this bill up on the 27th. By that time I am sure the printing will be out and we will have notice of it. If that is agreeable to the committee I will advise the persons interested to come. Is that agreeable to the committee?

Agreed.

Mr. FRASER: We are all in the dark as to this amendment.

The VICE-CHAIRMAN: We have not considered this bill at all. It is only intended to introduce the amendment which has just been handed in. We are not going on with it at all, it is just for the information of the committee.

Mr. ISNOR: If it is not likely that we will have the copies printed before our next sitting I would suggest that you arrange to have run off a sufficient number of mimeographed copies for the immediate use of members of the committee.

The VICE-CHAIRMAN: If we find that the printed copies will not be available we will arrange to do that.

Now, gentlemen, we have Mr. Penney here. He is representing the Salmon Cannery Operating Committee of British Columbia, and I think he has a brief to present to the committee, copies of which have already been distributed. Mr. Penney.

Clare D. Penney, representing the Salmon Cannerys' Operating Committee of British Columbia, called:

The VICE-CHAIRMAN: I was going to suggest to Mr. Penney that he could either explain the contents of the brief to us or could read the brief, as he prefers, then he will be subjected to your questioning.

The WITNESS: Gentlemen, on behalf of the Salmon Cannerys' Operating Committee I thank you very much for the opportunity of appearing before you tonight and presenting this brief to you which primarily has to do with the requests that were made in 1946, in connection with the Geneva Conference. I would not like to explain the brief, but if it is in order I would rather read it to you. Before commencing to read it I may say that it is not in any way the intent of the Salmon Cannerys' Operating Committee to complain too bitterly about what happened in Geneva. It is certain that under conditions of negotiations of such world-wide importance that everyone could not be satisfied. However, we felt within the scope of our interests we ought to follow the matter up further. The brief reads as follows:—

House of Commons Standing Committee on Banking and Commerce.

GENTLEMEN:

The general agreement on tariffs and trade resulting from the Geneva Conference on trade and employment, which has been referred to your committee for consideration and report, contains provisions adversely affecting the British Columbia salmon canning industry. To these we desire to draw attention with a view to amendment.

Your committee is hereby informed that in anticipation of the Geneva Conference, the industry was invited by the Trade and Commerce Committee, with Hon. H. B. MacKinnon as chairman, to make a written submission of its views on the probable impact on its operations of suggested tariff changes, with particular reference to the contemplated weakening of the imperial preference system. The response of the industry was made in a brief dated February 15, 1946, the argument of which can be thus summarized:

1. The industry is an important one. It employs very large capital, gives employment directly or indirectly to tens of thousands, expends millions annually in services and supplies, and produces a large volume of essential foodstuffs for the domestic and export trade.

2. The industry adheres to an invariable policy of co-operation with the government of Canada in everything designed to promote the national welfare and the well-being of the workers. It does not in principle offer any opposition to a general breakdown of trade barriers.

3. The legislative frame within which the industry works, however, is more restrictive and cost-imposing than that of any of its foreign competitors. Legislation deemed by the parliament of Canada to be in the national interest imposes on the industry the highest production costs of any fishery in the world and quite impairs its ability to compete on equal terms in the world's open competitive markets.

4. Specifically, the salmon canning industries of Alaska, Oregon, Japan and Soviet Russia are permitted to make use of trapnets and thereby to reduce, not only the cost of fishing, but the cost of shore processing as well. The costs of American producers were given as 83·34 per cent of net sale value in *The Pacific Fisherman* of January 1946, whereas the costs of British Columbia producers, debarred by law from the use of fishtraps, were shown to be 92·70 per cent of net sale value. The comparative costs of Asiatic competitors are not so readily ascertainable, but it can be stated with full assurance that their wage and other costs are the lowest in the world.

5. Moreover, the industry's competitors enjoy distinct marketing advantages which make the legislative restrictions on its own operations still more onerous. About 90 per cent of the United States pack is sold in its domestic market presently at much higher than Canadian prices. The other 10 per cent which is exported is generally more than half the entire Canadian pack and not infrequently two-thirds of the entire Canadian export surplus. The profitable disposal at high prices of 90 per cent of their pack enables American producers to dispose of the other 10 per cent at any prices which may be obtainable in the export market. Canada does not start with such a market advantage and therefore finds it difficult to meet such competition.

In pre-war years only some 5 per cent of the Asiatic pack was sold in its domestic market. The rest was exported, principally to the United Kingdom, in competition with the Canadian and United States packs. From 1926 until the outbreak of war on the Pacific, Asiatic competition was seriously injurious in all markets. It drove the higher-cost Canadian product from practically all non-empire countries. Empire markets were only precariously held by grace of the British imperial preference system.

Even in the empire markets which were thus saved from extinction by empire preferences, the industry sustained a serious collapse of prices which made profitable operation impossible over a period of many years. This fact was fully established to the satisfaction of the finance department in ascertaining the industry's standard profits for excess profits tax purposes.

6. Inasmuch as the continued welfare of the industry is as much the concern of government as it is of the operators, and inasmuch as government must assume responsibility for the consequences of restrictive legislation deemed to be in the general interest, the brief of February 1946 urged that the empire preferences be retained intact, or that satisfactory reciprocal concessions be obtained, or that government find other means of coping with the industry's marketing difficulties.

THE PRESENT POSITION

These reasonable submissions of a government-hampered industry seem to have been ineffectual in achieving their purpose. The General Agreement concluded at Geneva, provides for an extremely serious reduction in empire preferences, and does not secure a single reciprocal concession. The agreement deprives the industry of its few remaining outlets provided by the imperial preference system, and it does not provide any new outlet in any part of the world.

Consider the important concessions obtained by Canada's competitors in Canada's preferred markets. In the United Kingdom, the empire preference has been slashed by 50 per cent; in Australia by 50 per cent; in New Zealand by 40 per cent; and in the British Colonies by 25 per cent. Doubtless these very substantial gains are gratifying to United States, Japan and Soviet Russia who surrendered nothing to get them. They are correspondingly disheartening to the operators of one of Canada's most important basic industries who have received nothing in return.

Had this reduced scale of preferences been in force during the 1930's, the industry could not have retained its precarious hold on the empire markets and would have been forced out of existence. Prices in the preferred markets during that period barely sufficed to pay actual expenses with no profit margin.

The industry is now therefore face to face with the situation contemplated in the 1946 brief when it warned: "If the government gives its consent to a weakening of the empire preference system, it must logically help the industry to face the consequences".

The government has given its consent to a serious weakening of the empire preferences and the industry therefore calls upon the government for effective

help to meet its present difficulties, and it begs leave to suggest what form that help should take.

There are obvious and grave objections to all forms of state-aided marketing schemes involving subsidized below-cost sales. Such schemes leave the real problem unsolved and impose unwarranted costs on other industries and other taxpayers. Notwithstanding, however, the grave objections to this form of assistance, it will become necessary if other remedies are not found.

The easiest and most satisfactory remedy for the situation which has now developed would be to bring pressure on the United States authorities to adhere strictly to the spirit and purpose of the Geneva Agreement. The United States took the lead in calling the Geneva Conference and it was the most insistent of all countries in calling for drastic reductions in the imperial preferences. It did not avow its purpose to break down tariffs in other countries whilst retaining its own intact. Its avowed purpose was to give as well as take, and thus do its full part in restoring world trade.

If in determining tariff arrangements with Canada, United States representatives were by any possibility influenced by fear of the potential menace of Russian competition, they have every reason to reconsider their position. It should be pointed out that Russia operates a state-owned non-price industrial system against which tariff walls are hopelessly ineffectual protection.

The effect of the Geneva Agreements has been the sacrifice of the principal markets of the canned salmon industry without obtaining reciprocal concession of a market in the United States. If the loss of empire markets had been compensated by the gain of the United States market, the industry would not now be anxiously concerned about the problems of today and tomorrow.

The reasons given for the non-inclusions of canned salmon in a number of United States tariff reductions are neither accurate nor logical. The reasons given are:—

This (concession) does not apply to canned salmon, of which the United States ordinarily has a large export surplus, where the duty is bound at the existing rate of 25 per cent ad valorem.

It is not accurate to describe the United States export surplus as large in terms of total production. It has seldom exceeded 10 per cent even in years of heavy production. In many years there has been no export surplus at all.

It is not logical for producers of American canned salmon to claim an exclusive American market for the bulk of their pack and free entry into foreign markets for the surplus, while denying the same privilege to their Canadian competitors. If the canned salmon producing states are entitled to tariff protection in all the states of the American union, then Canada as the only British producer of canned salmon is equally entitled to tariff protection in all the countries of the British commonwealth.

The American representatives did not stop at depriving an empire country of its cherished empire markets without providing alternatives, they went so far as to readjust their tariffs with intent to deprive Canadian canneries of Canada-caught raw fish supplies. Taking advantage of their Geneva gains and of their normal cost-advantage, they lowered the United States tariff on Canadian raw fish for canning purposes in a well conceived effort to divert it from Canadian to American canneries to be processed. Taking the short view, the Americans thus scored a tariff victory. Taking the long view, time may demonstrate that it would have been to their ultimate advantage to raze their own tariff wall to the ground.

If American canners are able to take Canadian raw salmon which is the raw material of the Canadian canners away from Canada, they would only have to pay the duty on entry into the United States of this raw salmon of the equivalent of thirty-seven cents per case of canned salmon.

On the other hand if the Canadian canner using Canadian raw salmon, supplies and labor, tries to export his finished product, canned salmon, to the United States the duty on this finished article will vary from three dollars and thirty-seven cents per case to six dollars and twenty-five cents per case. This is based on ruling Canadian prices at the United States duty rates of twenty five percent ad valorem.

The Canadian canned salmon industry is by no means the only industry adversely affected by the unscalable United States tariff wall which was ineffectually dealt with at Geneva. A trenchant leading article in the *Financial Post* of Toronto dated May 1, 1948, says:

Unless Canada can quickly and substantially increase her exports to the United States, this country faces most drastic and painful readjustment in the near future. That readjustment might easily involve a considerable drop in our present standard of living and a sharp exodus of our young people to the United States.

Similarly, Hon. Douglas Abbott, Minister of Finance, addressed an important gathering of American business men on May 4, 1948. He warned his audience of the imperative necessity to buy more Canadian goods in view of the fact that Canadians were buying twice as much from the United States as United States was buying from Canada. Such a trade position was a peril to both countries.

The British Columbia canned salmon industry therefore points out to your committee that in many important respects its interests are identical with the highest possible conception of national interests. It seeks free entry into the United States as much for Canada as for itself, as one sure means of re-adjusting some part of the adverse balance of Canadian-United States trade. Moreover in seeking to become self-reliant in a free competitive world, it is also seeking an effectual means of avoiding the necessity for taxpayer support on the one hand, or of reducing the living standards of fishery workers on the other. It asks nothing that cannot be justified on public service grounds.

In the foregoing, nothing has been said of the emergence of Soviet Russia as a comparatively new competitive giant in the canned salmon field. Dispensing as it does with a cost and price system in state operated fisheries, Soviet Russia can, if she wishes, under-cut all countries adhering to a price system. Soviet Russia owns and operates some of the richest fisheries in the world. It has available unlimited supplies of the cheapest forced labour, and it has fishing facilities second to none. In dealing with the reasonable requests of the British Columbia canned salmon industry for better production and marketing facilities, your committee might well ponder the significance of the following statement of Dr. W. M. Chapman, Director, School of Fisheries, University of Washington:

To the best of my knowledge, Russia has the largest and most efficient fleet of mother fishing ships in the world.

The men who have invested over \$40 millions in a useful but hazardous enterprise and who are more restricted in their productive facilities than any of their competitors, are entitled to call upon the government of Canada for larger liberty and larger markets.

All of which is respectfully submitted.

Signed on behalf of all members of the Salmon
Canners' Operating Committee.

S. M. ROSENBERG, *Chairman*

The VICE-CHAIRMAN: Now, Mr. Penney, are there any further remarks that you would care to make in support of this brief?

The WITNESS: I think not, Mr. Chairman. I think it covers matters more thoroughly than I could.

The VICE-CHAIRMAN: Are there any questions of Mr. Penney?

By Mr. Isnor:

Q. First, I would like to compliment Mr. Penney on this very fine brief he has prepared and submitted to us. In regard to the brief itself he mentioned that the money invested in the industry was upwards of \$40,000,000. What is your total employment?—A. I would just say in the plant alone in the neighbourhood of 9,000 men. That does not include the fishing fleet.

Mr. Low: Could you estimate the number included in the fishing fleet?

The WITNESS: That would be very difficult. I would attempt to if you wish me to.

Mr. Low: Yes.

The WITNESS: Say possibly upwards of 20,000 men, I think, actively engaged.

By Mr. Fraser:

Q. That includes the 9,000 in the plants?—A. Yes.

Q. Not additional?—A. In total, 20,000, I would say.

Q. In the fleet?—A. No, altogether; I would say, gentlemen, that that is a very hard figure to give accurately. I am just trying to get as close as possible to it.

Q. Within 1,000 people engaged?—A. I would be that, I would think.

By Mr. Isnor:

Q. How does your cost of production today compare with the cost of production in 1938?—A. Well, I could best answer that by saying that everything that goes into the cost of pack today from the cost of the can to the label that is around the can and the raw product and the labour involved in doing it has advanced in some instances as high as 100 per cent. I cannot tell you accurately.

Q. I understood you to say that the Department of National Revenue took into consideration your excess profit taxes. In arriving at that did they take the basic years, 1936, 1937 and 1938?—A. No, they did not regard those as basic years so they went back to the 1920's—1927-8 and 9, I believe; because I think there was not a salmon cannery in Canada that made any money in the 30's.

Q. What about those years you mentioned, 1936, 7 and 8?—A. As I said, in the over-all picture they did not make any money in the 30's. I would like to make that statement.

Q. Did that apply all the way through?—A. It applied all the way through the trade. They certainly did not make any profit as compared to capital invested. In other words the Finance Department did not consider it fair to take those years for fixing our standard profits.

Q. And they increased your standard profit?—A. Yes.

Q. Coming back to my other question, cost of production. Your answer referred to the increased cost of materials that entered into packing, but how would the percentage compare?—A. The percentage of profit or percentage of cost?

Q. Percentage of cost.—A. I am afraid I could not answer that.

Q. Perhaps it is not fair to ask my next question which is how would it compare in 1942 and 1943 to the 1930's?—A. I would say, without having the figure in mind, that our net profit in 1942 and 1943 was better than in the 1930's because there is every possibility that in the 1930's there was no net profit.

Mr. TIMMINS: What preference did the industry lose at Geneva, in so far as the United Kingdom was concerned?

The WITNESS: The preference was cut percentagewise in the United Kingdom by 50 per cent. That is the preference itself was 50 per cent less than it was before. The Australian preference was also reduced 50 per cent—both of those countries are the largest salmon consuming countries within the empire. New Zealand was also cut 40 per cent and most of the other colonies were cut to 25 per cent.

By Mr. Jaenicke:

Q. You mean the margin was cut?—A. Yes.

Q. The duty is free into the United Kingdom? There is no duty on Canadian canned salmon?—A. I do not think that is correct, I think there is a duty.

Q. On page 1022 of *Foreign Trade* it says "the product remains free of duty from Canada but the margin was cut from 10 per cent to 5 per cent.—A. Then you are correct, it was the margin that was reduced.

Mr. ISNOR: Your answer in either case was the duty was cut 50 per cent.

The WITNESS: No, the preference was cut.

Mr. JAENICKE: There is no duty from Canada into the United Kingdom.

Mr. ISNOR: Is there any duty on any type of canned fish?

The WITNESS: Where—

Mr. JAENICKE: He is complaining of the loss of the British preference.

Mr. ISNOR: There was no duty at any time prior to the Geneva Trade agreement.

The WITNESS: I am sorry, I cannot answer that.

Mr. TIMMINS: What do you mean by margin?

Mr. MCKINNON: Mr. Kemp will give the detail. The duty is different in each country. Some duties are specific, some are ad valorem, but Mr. Kemp will give the duty in each case—in the United Kingdom, New Zealand, Australia, and the colonies.

Mr. JAENICKE: What is the value in dollars of the Canadian canned fish product last year, and what was it in 1938? Can you give the figures for those two years?

The WITNESS: It varies so much, not only according to price fluctuations but because of the different species of fish. I would have to look up the statistics and I would not hazard a guess. I could give you a generalized idea of the pack—and I could give those figures now—but as to the volume in dollars I would not hazard a guess because every year is different. Even if you take the same number of cases of fish on the same market you would get a different value because of the different quantity of each species of fish packed.

By Mr. Hazen:

Q. What do you spend annually in the way of services and supplies? You state in your brief in the first paragraph "it employs very large capital, gives employment directly or indirectly to tens of thousands, and expends millions annually in services and supplies—" and I was going to ask how large that figure is?—A. That is a matter of individual company record which would be very hard for me to answer. Each operating company would keep its own records of the costs of its supplies and I am afraid that would be something not readily available to me.

Q. You could not tell us?—A. No.

Q. And you go on to say "and produces a large volume of essential food-stuffs for the domestic and export trade." You cannot give us figures on volume?—A. I think the average pack over the last ten years would be 1,500,000 cases of salmon.

Mr. BREITHAUP: Would that figure not be available through the department?

The WITNESS: Yes, through the Department of Fisheries.

By Mr. Hazen:

Q. On page 2 of your brief, in the third paragraph you say "the legislative frame within which the industry works however, is more restrictive and cost-imposing than that of any of its foreign competitors. Legislation deemed by the parliament of Canada to be in the national interest, imposes on the industry the highest production cost of any fishery in the world—" and in paragraph 4 you refer to fish traps. Is the legislation to which you refer as deemed by the government of Canada to be in the national interest legislation which prohibits fish traps?—A. That is right.

Q. Is there any other legislation?—A. No, that is it.

Q. It is just the legislation affecting fish traps?—A. That would be right.

Q. The fishing traps to which you refer are traps placed at the mouth of the rivers, are they?—A. Not necessarily. As I understand it they are placed on sites—this can probably be better explained by the Fisheries Department than by me—but they are placed on sites for which they are licenced to be placed. They cannot be placed willy-nilly, and there is but one in this country.

Q. They are not allowed in this country, but are they allowed in United States and Alaska?—A. They are allowed in Alaska but not in the state of Washington. They are also allowed in Oregon.

Mr. FRASER: They are allowed in Oregon?

The WITNESS: Yes.

Mr. HAZEN: Are those traps supposed to prevent the spawning of fish or what is the objection of them?

The WITNESS: I do not know what the objection is, and of course, I am only speaking from a company standpoint.

By Mr. Timmins:

Q. Are the fish scored when they are trapped or do they become inferior fish?—A. No, I think that to the contrary they are better fish. They are in freedom all the time until they are dipped out of the trap. They are not caught by the gills or anything like that.

Q. When you say there is a loss of margin in respect to the market for fish in England, do you mean the margin between the British preference and the most favoured nation preference?—A. It is the margin we previously enjoyed over our competitors. I am not quite sure of that answer but in other words we have 5 per cent less advantage than we had before.

By Mr. Isnor:

Q. Who are your competitors in that market?—A. Pardon?

Q. What countries are your competitors for the United Kingdom market?—

A. Our pre-war competitors were everyone that produced salmon. I think Japan would be the foremost of those competitors.

Q. All right, Japan, and who would rank next?—A. The United States.

Q. The United States, and then Canada?—A. Yes.

Q. Am I right in saying only 10 per cent of the United States' surplus is exported?—A. That is correct, yes.

Q. Then you only face competition with 10 per cent of the United States catch?—A. That is quite true, but 10 per cent of their pack is nearly 40 per cent of our pack. They pack 6,000,000 cases and we pack 1,500,000 cases.

Q. That competition has not changed? It has not increased as far as percentage is concerned?—A. It varies so much from year to year, that it would be necessarily, as a matter of discussion, a round figure.

Q. Yes, but the percentage is only 10 per cent and that 10 per cent has not increased?—A. It might not be that now, with the United States market supplying a ready domestic outlet.

Q. Mr. Penney, would you explain to a laymen like myself just what the outstanding loss is which you sustained in the American market? I remember some of the British Columbia members stating that British Columbia sustained a bigger loss than any other section of the country in regard to the trade agreements because, if I remember rightly, the raw fish was shipped into the United States now, as against the packed article?—A. It is true there has been an order in council passed recently which would allow certain of our salmon to go across in the smoked form, the frozen form and so forth. I am afraid it is a matter of law which I could not touch upon too much because I do not know much about it.

Q. Forget the law, just give the packing end of it. What effect has the change made in your business?—A. It would have this effect if all our raw fish were exportable it would force the price of raw fish in Canada to the American level. It would also have the effect of taking away our raw product to the United States. We have not started to operate under the order yet, so it is impossible to say.

By Mr. Timmins:

Q. You do not know how much of the market you have lost or how much you still have?—A. We have not started to pack under this arrangement, yet.

By Mr. Isnor:

Q. Are you speaking of the special order in council?—A. Yes, we have not started to pack under it.

Q. Have you made an estimate of the loss this agreement would mean without the special order in council?—A. No, I could not.

By Mr. Fraser:

Q. It would not be profitable to take the raw product into the United States and can it over there?—A. I think the costs of the fishing industry, particularly, are governed more by volume than anything else. You have your fixed cost before you ever catch a fish. Your volume of pack governs, if you pack up to the maximum effort, your cost of packing will decrease after you reach that volume. Therefore, if the Americans are able to pack all their own fish and anything else they can buy outside, their costs are materially reduced when they get a larger pack.

Q. Those fish which have to go to the United States raw would have to go there frozen?—A. That is correct.

Q. Then, would it not cost more because they would have to be frozen and then unfrozen to pack?—A. It would cost them more, but their cost per unit would go down in a greater ratio than the additional cost.

By Mr. Quelch:

Q. Does U.S.A. still export salmon to the United Kingdom?—A. Yes, we understand there was an order placed last year.

By Mr. Hazen:

Q. Can you tell us how much of the pack was sold on the domestic market and how much in the Empire markets?—A. I could answer the first part by saying Canada is a normal consumer of 40 per cent of its own product.

By Mr. Fraser:

Q. That would be 40 per cent of the million and a half cases?—A. Yes, probably in pre-war days. 600,000 cases were probably used.

Q. What was put on the market in Canada in 1947?—A. I would say last year, probably 900,000 to a million cases were sold in Canada.

Q. Where did it all go, because there was very little around our stores?—A. It was distributed all over Canada.

Q. All we could see in our stores were the quarter pound and half pound tins?—A. There is a logical explanation for the quarter pound tin. When we started on our 1947 season we had the British contract which was to take a minimum of 40 per cent of the salmon we produced. Well, we were committed to these quarter pound tins at the request of the British Ministry of Food. The British contract was revised, almost to the point of being non-existent and we had quarter pound cans packed and to pack. Therefore, we had to sell them.

By Mr. Jaenicke:

Q. You say on page 4.

Doubtless, these very substantial gains are gratifying to the United States, Japan and Soviet Russia who surrendered nothing to get them.

Leaving out the United States, you know Japan and Soviet Russia are not parties to the agreement? How did they gain? Did the British reduce their general tariff, do you know?—A. I do not know.

Q. Well then, they would not gain any advantage they did not have before, would they?—A. I would rather have that one answered by someone else.

Q. I mean, you are presenting this brief?—A. I know, but I say they gained from the standpoint that they have a working position to start from, at least.

Q. They would not be in any better position unless Britain reduced the general tariff outside the agreement altogether, because the margin of preference is only reduced so far as the 16 countries who signed this Geneva agreement are concerned and that is all we are dealing with. I should like to know what authority you have for that statement that Japan and Soviet Russia gained?

Mr. FRASER: I think it would be wise to have Mr. Kemp give us the figures on that. Then, Mr. Penney can come back. In this way, we will not be at cross-purposes.

The VICE-CHAIRMAN: Is that agreeable to the committee?

Agreed.

By Mr. Isnor:

Q. Just before you leave, Mr. Penney, has Russia any so-called mother ships operating?—A. I believe she has, yes.

Q. In competition with your fleet?—A. Well, the only competition is that she is put where she might sell to the United Kingdom.

Q. This statement of Dr. Chapman's with regard to it reads,

To the best of my knowledge Russia has the best and largest fleet of mother ships in the world.

How many mother ships would Russia have?—A. I have no idea.

Mr. GIBSON: We do not allow mother ships in this country.

The VICE-CHAIRMAN: Well, gentlemen, Mr. Kemp is at your disposal.

Hubert R. Kemp, Director of Commercial Relations Division, Department of Trade and Commerce, called:

Mr. PINARD: You have read Dr. Chapman's statement—

The VICE-CHAIRMAN: I think we have asked Mr. Kemp to come here to give us some information as to imports and exports.

The WITNESS: We have prepared a couple of statistical tables, gentlemen, thinking, perhaps, it might be helpful to have them on your record in fairly compact form. The first one shows the tariffs on Canadian salmon in various countries before and after the Geneva agreement. I have several copies of it. I will give one to the chairman, one to Mr. Penney and one to the reporter.

Perhaps you would allow me to read the salient features of it. In the United Kingdom, before the Geneva trade agreement the rate to Canada on canned salmon was free of duty and the rate to most favoured nations, which would include the United States, was 10 per cent, making a preferential margin of 10 per cent.

Now, the Geneva agreement rate on Canadian salmon continued free. We still enjoyed free entry into the markets of the United Kingdom. The change that has been made is, I think, to reduce the rate of duty to the most favoured nations from 10 per cent to 5 per cent, so that the margin of preference which was 10 per cent is now 5 per cent.

By Mr. Jaenicke:

Q. Before you go any further, do you know the general tariff of the United Kingdom on canned salmon?—A. So far as I know they do not have a different rate of duty for different countries other than preferential countries; that is to say, the rate of duty would be the same against the United States as against Russia at the present time. The Geneva Agreement does not obligate them to continue giving this privilege to Russia and other countries which are not among the signatories. They may have most-favoured-nation agreements with such countries outside of the Geneva system which obligate them to do so, but so far as Geneva is concerned they or we or any other signatory power would be quite at liberty to raise the rate of duty against countries that did not participate in Geneva.

By Mr. Quelch:

Q. What is the actual situation at the present time in regard to Russia?—A. At the present time, as far as I know, salmon from Russia comes in at 5 per cent duty the same as salmon from the United States or any other most-favoured nation. It is only empire countries that enjoy the duty-free privilege.

By Mr. Black:

Q. As I understand your statement, salmon will come in from the United States into Canada at 5 per cent?—A. No, I am speaking of the United Kingdom now. Going into the United Kingdom Canadian salmon goes in duty free, and Russian or American salmon would now pay 5 per cent.

By Mr. Michaud:

Q. Why Russia? Are they a party to the Geneva Agreement?—A. No sir, they are not; and so far as the Geneva Agreement is concerned they are not at the present time entitled to any concessions at all.

Q. Before the Geneva Agreement was signed the duty was 10 per cent?—A. That is right.

Q. And as a result of the Geneva Agreement they enjoy the same benefits as if they were a party to that agreement?—A. The point is really this, the

United Kingdom has not as yet seen fit to put in a three-column tariff. At the moment there are only two rates in their tariff, a rate against preferential countries like Canada, and the rate against other countries. They have not separated the rate given to most-favoured nations from the rate given to other nations.

Q. Is Great Britain the only country that has not done that?—A. No, sir; there are a great many countries in the world which have a single-column tariff.

Q. Therefore countries which are not parties to the Geneva Agreement derive the same benefits as those which are parties?—A. That is perfectly true; as long as those countries which do not have three-column tariffs like our own do not see fit to separate the most-favoured nations from the general tariff, then the general tariff countries will get the same privileges. I should say that happens at the present time in the United States, too. The United States has only one column in its tariff, except for the privileges given to Cuba and the Philippines, which enjoy a preference. Apart from that Russia enjoys in the United States the same privilege that we do.

By Mr. Black:

Q. Following up my question, what is the duty under the Geneva Agreement from the United States into Canada?—A. It is $27\frac{1}{2}$ per cent.

Q. What was it before?—A. It was not changed. It was $27\frac{1}{2}$ per cent before.

By Mr. Dionne:

Q. What is the duty from Canada to the United States?—A. It is 25 per cent.

Q. On canned salmon?—A. Yes.

By the Vice-Chairman:

Q. For those who have not the sheet that you have in your hand, am I correct in saying they will find the figures you have just quoted for the United Kingdom on page 132 of the minutes of the second meeting under the heading "Salmon"?—A. Yes, that is true, sir.

Now, Mr. Chairman, in reading this table to the committee I gave the figures for the United Kingdom, but I also have here the figures for Australia, New Zealand, Ceylon and South Africa. Perhaps just to have your records complete on the principal preferential markets you would like me to go over the figures quickly for these other countries. In Australia, before Geneva, the rate on canned salmon from Canada was 1 penny a pound, and to most-favoured nations it was 4 pence a pound, making a preferential margin of 3 pence a pound. At Geneva the rate against Canada remained at 1 penny a pound but the rate to most-favoured nations was reduced to $2\frac{1}{2}$ pence a pound, making a margin of $1\frac{1}{2}$ pence.

By Mr. Nixon:

Q. What was that in English?—A. If I may convert it at the rate of 2 cents to the penny, which is not exact but fairly close, before Geneva the rate to Canada was 2 cents a pound and to other countries it was 8 cents a pound. At Geneva the rate to Canada continued at 2 cents a pound but the rate to most-favoured nations was reduced to 5 cents a pound. So that the margin is now 3 cents instead of 6 cents a pound as it was before.

By the Vice-Chairman:

Q. Would the members of the committee not find that on page 138 under the heading 51(c) canned salmon?—A. That gives it for Australia. That is right, sir.

Q. The figures you have just given?—A. That is right, sir. For New Zealand I think the figures are probably also in the same place, but in order to have them all together I will read these. Would you rather have me read them in pence or convert them into cents?

Mr. FRASER: In pence.

The WITNESS: I will read them in pence. Before Geneva the rate against Canada was $1\frac{1}{4}$ pence per pound, and the rate to most favoured nations was 3 pence per pound. I might make a note on that before I go further that the preference that we enjoyed in New Zealand before Geneva was therefore $1\frac{1}{4}$ pence a pound. At Geneva the rate to Canada was reduced to $1\frac{1}{2}$ pence and the rate to most favoured nations was also reduced to $2\frac{1}{2}$ pence, the result being that the preference is now 1 penny a pound as compared with $1\frac{1}{4}$ pence before Geneva.

In Ceylon the rates before Geneva were 10 per cent to Canada, 20 per cent to most favoured nations. At Geneva they left the rate to Canada at 10 per cent and reduced the rate to most favoured nations to 15 per cent, so that the preferential margin has now been cut from 10 per cent to 5 per cent. Finally in the Union of South Africa the rate before Geneva has not been changed. Before Geneva it was $1\frac{1}{2}$ pence to Canada and 3 pence to most favoured nations. It is still $1\frac{1}{2}$ pence to Canada and 3 pence to most favoured nations.

By Mr. Timmins:

Q. The result is that as far as the preferential tariff is concerned there is still a preferential tariff in favour of sending them to the United Kingdom?—A. That is true, sir. We have not given up the preference on canned salmon anywhere in the world. There is still a preference remaining, quite a substantial preference, although as Mr. Penney has pointed out, it is perfectly true that in the United Kingdom and Australia it is only half what it was, and in New Zealand it is 60 per cent of what it was.

By Mr. Isnor:

Q. Giving up that 60 per cent or cutting it in half, what did you get from the United States for Canada?—A. I have a table which I think, perhaps, should be put on the record. This table does not apply specifically to fish, but it has not been published anywhere in Canada, as far as I know, and it is certainly something that the committee would wish to have.

In 1939, which was the year on which most of the statistical studies were based in these negotiations, the United States imported from Canada \$323,000,000 worth of goods. Those were the total imports from Canada—\$323,000,000 in 1939.

Now, of that amount \$211,000,000 came into the United States duty free. There was not anything they could do for us on these articles except to bind them free. The remainder which were dutiable were valued at \$111,000,000. Now, of that \$111,000,000 they gave us concessions on \$105,000,000 worth of commodities. The extent of those concessions may be briefly stated as follows: of the total imports of \$111,000,000 dutiable they gave us reductions in duty ranging from 36 to 50 per cent on \$65,000,000 worth of goods. They gave us reductions ranging from 25 per cent to 35 per cent on items that were worth something over \$11,000,000. They gave us reductions of less than 25 per cent on items worth about \$1,000,000. They bound the present rate on about \$28,000,000 worth of goods, which would include, of course, canned salmon.

To recapitulate it briefly: out of total imports from Canada of \$323,000,000 in 1939, \$211,000,000 were already free of duty and they have been bound so in practically every case. On the remaining \$111,000,000 worth we have received

duty reductions on all but \$28,000,000, and on most of those \$28,000,000 the present rate of duty has been bound. The great majority of the duty reductions range from $\frac{1}{3}$ to $\frac{1}{2}$ of the duties that were in effect before Geneva.

The statement is as follows:

UNITED STATES

Extent of trade affected by concessions made by United States under general agreement on tariffs and trade, Geneva, October 30, 1947, based on imports into United States in 1939.

(1) To all countries

	Dutiable \$	Free \$	Total \$
Imports from all countries (1939)	996,500,000	1,341,200,000	2,247,700,000
Imports of concession items from all countries..	636,400,000	1,130,100,000	1,766,500,000
Percentage of total	70%	84%	79%

(2) To Canada

Total imports (1939)	111,419,000	211,848,000	323,267,000
Imports of concession items	105,562,000	193,580,000	299,142,000
Percentage	95%	91%	93%

(3) Extent of concession to Canada

		% of total
On dutiable items:		
Total imports	\$ 111,419,000	
Reductions in duty:		
36% to 50%	64,865,000	58
25% to 35%	11,535,000	10
Less than 25%	1,114,000	1
Present rate bound	28,048,000	25
On free items:		
Total imports	211,848,000	
Free entry bound	193,580,000	91

These figures contain the best brief statement I can give in answer to Mr. Isnor's question of what we got in return for the various concessions that we gave.

By Mr. Timmins:

Q. Does that go all the way from 1938 down to the present time?—A. Those figures, do you mean?

Q. Yes.—A. No. Those are simply figures that were analyzed for the year 1939. They vary a good deal from year to year, but from such information as I have been able to get the percentages are pretty much the same in 1946.

By Mr. Isnor:

Q. About 70 per cent?—A. That is right, sir.

Q. I think we all appreciate that we did get something very definite in the way of benefits, but we are dealing with fish now, and I am from Nova Scotia, and the British Columbia members are interested at this time in knowing as to whether we made a good bargain in as far as the fishing industry is concerned. If we have not done as well as we think we should have then how are you going to do a little better for the Canadian fishermen, both on the east and west coasts?—A. Now, to try and answer that quickly, we have brought with us a statistical statement of all the concessions that we got on fish at Geneva and it is a pretty impressive document. It is rather long and I think I would rather not read it to you unless you wish me to take up the time of the committee in doing so. However, I should be very glad to put it on the record.

By Mr. Michaud:

Q. You said fish, not canned salmon.—A. I have the salmon separately.

By Mr. Irvine:

Q. Could you quote the salmon?—A. Yes, the salmon concessions we received were as follows: in India the former rate of duty was 30 per cent and under the Geneva agreement the rate has become 20 per cent.

By Mr. Quelch:

Q. Can you show the percentage of the pack that goes to each of these countries?—A. I have another table which shows the destination of all of the salmon exported from Canada in 1939 and if you wish I shall put that on the record later on.

Q. Give us how much we got on the percentage.—A. I shall be glad to look into the figures as I go along and try to mix the two tables.

Mr. Low: That is fine.

The WITNESS: I am afraid I have to pass up India. I have not got the figures for it and I rather suspect, although I do not know, that our imports into India were too small to justify putting them in a table.

Mr. ISNOR: You mean exports?

The WITNESS: I am sorry, exports. India in these statistics was included with "other empire countries", and the total exports to "other empire countries", including India, were valued in 1938 at \$143,262.

Mr. NEIL: India figures show canned salmon separately as \$42,000 in 1939.

The WITNESS: It was not a very big market, and the reason is obvious. Canned salmon is not an inexpensive food compared with other kinds of food, and the main market for it in India in 1939 would be among the European population. So we would hardly expect to sell a great deal in India under the best conditions.

We have similar figures for Pakistan. Pakistan did not exist as a separate country before Geneva, but Pakistan, like India, has reduced its rate of duty from 30 per cent to 20 per cent. There were no separate figures for exports; they are included in what has just been quoted.

In Norway the pre-Geneva rate was 60 crowns for 100 kilograms and that has been cut in half and is now 30 crowns per 100 kilograms. The exports to Norway, however, were very small; they amounted to only 1,200 pounds, worth about \$100. They did their best for us. They cut their rate nearly in half. Still, Norway is a big producer of fish and it is not likely that they would ever be a very large exporter of canned salmon. The next country on the list is Czechoslovakia.

Mr. ISNOR: I wonder if we could have the first three or four or five largest customers of Canada?

The WITNESS: I haven't got them arranged in that order.

Mr. ISNOR: You could pick them out.

Mr. JAENICKE: You can find them in this report.

The WITNESS: I suppose, of course, the Benelux and France would be the largest ones. They are the most important. Benelux is shown as three separate countries in the trade statistics. In Benelux the duty revision was from 25 to 20 per cent. In France it was from 30 to 25 per cent. Figures for quantities can be inserted later on, if you wish. These are the principal reductions. Others are listed for six or seven other countries. The others are of less importance.

Mr. TIMMINS: Mr. Chairman, is the whole of that statement going on the record?

The WITNESS: I believe Mr. Kemp has read the other part of it.

Mr. MICHAUD: Anyway, he gave part of it. He mentioned that he was not reading all of it and I thought probably we should have it in the record.

The CHAIRMAN: It is on the record, is it not?

The WITNESS: I do not think I read the second half of it.

The CHAIRMAN: Well, we had better put it in.

GENERAL AGREEMENT ON TARIFFS AND TRADE

TARIFFS ON CANADIAN CANNED SALMON

Preferences Reduced

	Pre-Agreement		Agreement		Preference Reduced by
	Rate to Canada	Rate to M.F.N.	Rate to Canada	Rate to M.F.N.	
United Kingdom	Free	10%	Free	5%	5%
Australia	1d. per lb.	4d. per lb.	1d. per lb.	2½d. per lb.	1½d. per lb.
New Zealand	1½d. per lb.	3d. per lb.	1½d. per lb.	2½d. per lb.	½d. per lb.
Ceylon	10%	20%	10%	15%	5%
Union of South Africa..	1½d. per lb.	3d. per lb.	1½d. per lb.	3d. per lb.	No change

Concessions in Other Countries

	Pre-Agree- ment rate of duty	Agreement rate of duty
India	30%	20%
Pakistan	30%	20%
Norway	60 kr. per 100 kilog.	30 kr. per 100 kilog.
Czechoslovakia	2,000 cr. per 100 kilog.	600 cr. per 100 kilog.
Benelux	25%	20%
France	30%	25%
French West Africa	7%	7%
French Oceania	Free	Free
French Indo China	25%	25%
Syria-Lebanon	25%	25%

STANDING COMMITTEE

EXPORTS

CANADIAN CANNED SALMON

	Calendar year 1938	
	Quantity 100 lbs.	Value \$
United Kingdom	171,320	3,726,527
Australia	134,631	1,667,519
New Zealand	33,514	429,081
British South Africa	32,015	262,504
British West Indies	12,445	107,917
Other empire countries	18,023	143,262
United States	5,366	54,490
Belgium	3,862	38,963
Bolivia	842	6,018
Brazil	57	440
Chile	673	4,987
China	157	1,515
Colombia	3,512	28,302
Costa Rica	196	1,414
Czechoslovakia	49	439
Ecuador	12	88
Egypt	291	2,504
France	58,553	554,392
French Africa	202	1,551
French Guiana	12	82
French Oceania	2,634	18,446
French West Indies	12	87
Madagascar	86	888
St. Pierre and Miquelon	25	215
Germany	26	210
Haiti	46	334
Iraq	48	400
Italy	120	925
Liberia	5	35
Morocco	12	82
Netherlands East Indies	716	5,373
Netherlands Guiana	197	1,593
Netherlands West Indies	468	4,389
Norway	12	100
Panama	937	7,329
Persia	12	100
Peru	426	3,176
Portuguese Africa	2,931	24,592
Portuguese Asia	77	644
Salvador	25	205
Virgin Islands	29	210
Guam	389	2,672
Philippine Islands	2,709	18,105
Venezuela	726	6,089
Total exports empire countries	401,948	6,336,810
Total exports non-empire countries	86,452	791,384
Total exports	488,400	7,128,194

By Mr. Michaud:

Q. Mr. Kemp, as I understand the contention of the salmon canners it is that as a result of the reduction in the preferences the B.C. industry has lost, or is expected to lose, considerable sales in British Empire countries and perhaps other countries as a result of the concessions secured under the Geneva Trade Agreement. Is the canning industry expected to increase sales in other countries to compensate for its losses?—A. I would like to answer the first part of that question. I do not agree that the loss of business in those countries at the present time, or the prospects for this year, are connected in any way with changes in the preferences. The reason for this loss of prospective business is entirely due to the fact that our friends in the United Kingdom, Australia and New Zealand, are short of dollars with which to buy our products and as a result of that they find it necessary to place restrictions upon their imports. They have included salmon among the things to be restricted. I think that they reached that decision with a great deal of reluctance, but they have decided that canned salmon is one of the less essential imports which they had to cut off.

I do not think if we had retained our preferences in full we would have been selling an ounce more salmon in the sterling area than we are likely to sell under the Geneva agreements.

Q. What concessions if any did we receive from the United States on fresh, frozen, smoked, salted and mild cured salmon?—A. I will have that looked up for you, sir. While it is being looked up in detail I would like to say a word about the situation in regard to fresh salmon. Mr. Penney, in speaking to the committee earlier, began by discussing the brief which the industry placed before the committee early in 1946. I notice that in that brief the industry asked for the following things; first, a retention of all preferences intact without any reduction; second, the complete abolition of the United States duty on canned salmon from Canada; and, third, the removal of the duty on a very extensive list covering most articles purchased for use in the salmon industry. I do not suppose that the industry thought it would be possible to do all these things simultaneously. They were probably considered as long-term objectives for the future. The brief also requested the complete removal of the United States duty on fresh salmon. The industry ought therefore not to blame us too much if the United States have taken off half the duty on fresh salmon.

By Mr. Isnor:

Q. Would you just tell us about the second item there?—A. You mean, the complete removal of the duty on canned salmon?

Q. Yes.—A. We are not in a position to boast about that. It was not reduced at all.

Mr. MICHAUD: What about the reduction of imports on—what do you call it—gear and fishing materials? You mentioned that as a third point, I think.

The WITNESS: I mentioned that.

Mr. TIMMINS: Were there any concessions on that?

The WITNESS: That is a subject which comes under the jurisdiction of the Department of Finance. This refers to changes in the Canadian tariff and it would take a fairly lengthy statement to show what happened on these things. I believe that a number of these items have been adjusted.

By Mr. Timmins:

Q. But the point was raised in this brief. The duty as a result of the agreement would only be 5 per cent. The difference in the tariff on the British market is cut in half?—A. That is right, sir. The preferential margin was 10 per cent.

Q. And it was reduced to 5 per cent?—A. It was reduced to 5 per cent, that is right. I have the answers here to the questions put by one of the gentlemen just a moment ago. On fresh and frozen salmon the U.S. duty was reduced by half a cent a pound or 50 per cent. On salted salmon the rate was reduced from 12½ per cent ad valorem to 10 per cent; and on smoked salmon the rate was reduced from 15 per cent to 10 per cent.

Q. That is, going into the United States?—A. Yes; and frozen salmon was not separately mentioned but it is covered under the same items as fresh salmon.

Mr. MICHAUD: Then it is your opinion, Mr. Kemp, that as far as the canning industry is concerned Geneva could not affect it prejudicially, I mean the industry in British Columbia; is that conclusion?

The WITNESS: I think I will put it this way, sir. The present difficulties of the industry on which Mr. Penney was very right in laying stress here; these present difficulties do not arise in any way from Geneva. They are the result of the balance of payments difficulties in which we as well as other countries are involved and the cure for them cannot be found by any mere

tariff adjustment. The difficulties of the industry are of a different character and will have to be dealt with in some different way. But that is a matter for those who are experts in the industry.

Mr. BLACK: I would like to know if Mr. Penney agrees with that statement?

Mr. PENNEY: I agree wholeheartedly with some of it, but I do not agree that the Geneva Agreement has necessarily done nothing to ruin our present market in the Empire preference countries because of the fact that they are obviously short of dollars.

Mr. FRASER: You have no trade there anyway.

Mr. PENNEY: But I don't look upon anything that is done today as something that is going to adjust it for this year. We have lost our advantage in those markets for the future, and no matter to what degree we have lost; but, definitely, as far the United States market is concerned this year at their price levels we probably could have exported salmon there.

Mr. HAZEN: That statement hardly agrees with the statement in your brief on page 4, where you say it has deprived the industry of its few remaining outlets provided by the imperial preference system and it does not provide any new outlet in any part of the world.

Mr. PENNEY: I would say it deprives them as to future markets even though we have still a slight preference, we do not have the same preference we had before. Possibly it might have been better had we said that it deprived us of an advantage.

By Mr. Sinclair:

Q. I wonder if I could ask one question here? This is something in which my riding is very interested. With the much lower cost production in Canada it is true that right now with 25 per cent ad valorem duty on Canadian salmon it would sell in the States at just about the same price as American salmon. Is there any reason why the Americans refused to give any concession on this very important thing? If they had cut the tariff in half as they did with fresh salmon, Canadian salmon would have found a very welcome market in the United States.—A. I am not sure about the figures with respect to the price and perhaps Mr. Penney could answer better than I, but our American friends were very frank as to their reason why they did not feel free to give us concessions on salmon. They thought if they gave us a concession on salmon the main benefit would not go to us but would go to another country which was not represented at Geneva and which was not giving them anything in return. That is to some extent confirmed by Mr. Penney's brief where you will see a great deal of emphasis is laid upon the danger of Asiatic competition.

Mr. MICHAUD: Is it not a fact if the British tariff of 10 per cent were maintained against Asiatic countries, Japan and Soviet Russia, it would not affect our B.C. canneries?

Mr. PENNEY: What was that again?

Mr. MICHAUD: If Great Britain maintained the 10 per cent tariff as it existed previous to Geneva—

Mr. PENNEY: Yes?

Mr. MICHAUD: How would it affect the B.C. problem?

Mr. PENNEY: It would give us that much better preference.

Mr. MICHAUD: It would improve our position.

Mr. PENNEY: Yes, it would have given us a better preference.

Mr. MICHAUD: Those are your serious competitors in the British market?

Mr. PENNEY: Yes.

Mr. JAENICKE: Do I understand you to say, Mr. Kemp, that the United States gives every country that reduced rate—even countries that were not signatories to the agreement?

The WITNESS: Yes, sir.

Mr. SINCLAIR: May I break in again? This is a very important point to the salmon canning industry in British Columbia. Russia is being used as an excuse to keep British Columbia salmon out of the American market. Surely if they can cut the tariff on raw salmon they could do the same with canned salmon. The argument of the British Columbia salmon industry and the fishermen is that if they cut the tariff on raw salmon, and if we cut the British preference in half, surely to goodness our Canadian people should have attempted to get the American tariff on canned salmon cut in half? If they had done so I am sure that we would not have had a British Columbia delegate down here.

Mr. ISNOR: That is the point.

Mr. SINCLAIR: They feel that they have been let down and that this is a \$40,000,000 industry which has no chance of survival because raw salmon can flow into the United States where canned salmon may not.

Mr. ISNOR: In other words you are in a squeeze.

Mr. MICHAUD: If the rate had been cut from 25 per cent to $12\frac{1}{2}$ per cent on canned salmon all those Asiatic countries would have come in?

The WITNESS: That is right.

Mr. PENNEY: I believe they would be competitors at any rate of duty would they not?

Mr. SINCLAIR: At 25 per cent you could be shipping now.

Mr. PENNEY: Supposing the rate were lowered to Russia?

Mr. BREITHAUP: Yes, for the reasons mentioned in the brief.

Mr. PENNEY: They have no cost, so what would a reduction of the rate of duty matter?

By Mr. Black:

Q. As I understand the Geneva Trade Agreement the United States and other countries give the same preference on most of their tariffs to countries which are not signatories to the Geneva Trade agreement. As I understand the agreement the Asiatic countries get the same advantage as the people who signed the Geneva Trade Agreement and I would like to have that cleared up?—A. That is perfectly true. The United States is, as a matter of fact, at the present time giving all countries the same advantages which it contracted to give some countries at Geneva.

Q. On all articles or just fish?—A. On all articles.

By Mr. Michaud:

Q. And so is Great Britain?—A. Yes, and many other countries. We do not, ourselves, but our general tariff is different from the most favoured nation rate. In explaining that it should be said that Geneva does not obligate them to do so and at any time they see fit they are free to withdraw the benefits of those concessions from the countries that did not enter into the agreement with them at Geneva.

Q. We should ask them to do that immediately?

Mr. ISNOR: Mr. Quelch says why should we enter into this agreement at all? You made the statement, as I recall it, that there was \$325,000,000 trade between the United States and Canada and of that amount roughly speaking \$211,000,000—or 70 per cent—was made duty free. Therefore we are gaining a benefit. That was a very fine piece of business and I think we should under-

stand, when it is said there is nothing to be gained by entering this agreement, that we did benefit to the extent of 70 per cent of the exports to the United States.

Mr. FRASER: Mr. Deutsch wishes to step into the picture here.

The VICE-CHAIRMAN: Mr. Deutsch is not on the stand at the present time.

Mr. MICHAUD: I would like to follow my line of questioning.

The VICE-CHAIRMAN: There are three or four witnesses on the stand at the present time.

Mr. ISNOR: Mr. Kemp answered the question but it was only a matter of re-emphasizing the point.

Mr. MICHAUD: Would it not be possible to make representation to the United States and the British countries, which have allowed the rest of the world to benefit under the Geneva Trade Agreement, to restore their rates before the agreement on certain products like canned salmon? The request would not necessarily apply to all articles but only on those to which the effect is adverse.

Mr. BREITHAUP: You could not do that could you? The whole thing is interlocked and if you change one thing you must change them all.

The WITNESS: I think that is the answer. If you make a horse-trade and the other fellow pays you \$100 and he gets the horse, you may go back to him and say "I want the horse back," but he would certainly want his money back.

By Mr. Timmins:

Q. This whole thing is only provisional in the meantime, and while it is temporary and provisional we have the right on three months' notice to withdraw. Any signatory may withdraw on three months' notice?—A. I am not sure of the extent of the notice but the right does exist under certain conditions—if a country is being flooded with imports or if other unforeseen circumstances occur—there is a possibility of withdrawing concessions, but the penalty is that the other party is entitled to withdraw corresponding concessions. We might see concessions wiped out on other species of fish on which we have received concessions and the total concessions which we have received on fish are very substantial.

Mr. DIONNE: Can somebody give me the retail price of salmon, per case, in the United States? Is it \$35 or \$36 a case?

Mr. PENNEY: I believe Sockeye salmon has sold as high as \$44 a case in the Seattle market.

Mr. DIONNE: What is the Canadian price?

Mr. PENNEY: That is \$25.

Mr. FRASER: \$25, that is for pound tins?

Mr. PENNEY: No, half pound tins, 96.

Mr. FRASER: How many tins to the case?

Mr. PENNEY: 96.

Mr. QUELCH: Where is the United Kingdom getting salmon at the present time because I understand her sales are going up considerably?

Mr. PENNEY: It must be from stocks previously obtained from Canada and the United States. I understand some purchases have been made from Russia.

Mr. DIONNE: Could anyone tell us the price that Russia is selling her salmon at per case?

Mr. PENNEY: No, I cannot. I believe there is a certain exchange of goods which enters into that.

Mr. MARQUIS: Does Russia sell salmon to the United Kingdom?

Mr. PENNEY: I believe so.

Mr. MARQUIS: In what quantity?

Mr. PENNEY: I do not know.

By Mr. Isnor:

Q. Would it be fair to say, in view of the fact you had pulpwood and perhaps lumber and paper products in mind on account of the large export business we had with the United States, that you overlooked this important industry of canned salmon?—A. No, sir, we did not overlook it. We should say quite emphatically that we requested our United States friends to give us the maximum concession which the law permitted them to give on salmon, but they were not willing to do so. They gave us the reasons I have mentioned.

By Mr. Michaud:

Q. Mr. Kemp, following this line of questioning, I think you stated that we, in Canada, in addition to the general list and preferential list, have a third and perhaps a fourth list, whereas the United States has just one list, their limited preferential list for their colonies or countries which are economically linked to them. In Great Britain, they just have the two lists. These countries, the U.S. and British countries, due to the fact they have no third list, all the rest of the countries outside the Geneva tariffs derive the same benefit as we derive from it. If we turn around, now, to Great Britain and those countries and look at it as though they were looking at us, the concessions which we give to them are greater than the concessions which we give to the outside world. They are in a preferred position. When we deal with them, we have the rest of the world to compete against, but when they deal with us, the rest of the world outside Geneva does not compete with them. I do not believe that is fair.—A. There is one point that might be added in connection with that. In deciding on the items to negotiate about, it was the usual practice to negotiate on items in which the negotiating countries were those principally interested. The countries negotiating tried, so far as they could, to concentrate their benefits on the countries with which they were negotiating. I think, perhaps, however that I ought to ask Mr. Deutsch to explain this.

Mr. DIONNE: You gave me a top price of \$25 as the cost of salmon and \$44 in the United States, so I take it for granted the United States is a better market than Britain. Now, you said you have a tariff from Canada to the United States on canned salmon of 25 per cent, so 25 per cent of \$25 is \$6.25, making a cost to the United States of approximately \$31.25, for which there is a market at \$44?

Mr. PENNEY: You are quite right when you are speaking only of sockeye salmon.

Mr. DIONNE: That is the only brand I know.

Mr. PENNEY: Our pack of sockeye salmon is probably never in excess of 20 per cent of our total pack. It may be in some years, but I would say 20 per cent of our total pack would be better than average on the sockeye, so that is a very small part of our pack. By virtue of its being a premium fish, it is true the American market is away out of line. We could have exported our sockeye salmon to the United States which we sold in Canada, and still have paid the 25 per cent duty.

Mr. FRASER: Is there a sales tax on that?

Mr. PENNEY: Here in Canada.

Mr. FRASER: That has to go on that price.

Mr. PENNEY: That is true, at that time.

The WITNESS: Not any more.

Mr. DIONNE: You are talking about sockeye salmon. Could you make a comparison with the other kinds of salmon as I did with the sockeye showing the price you could get?

Mr. PENNEY: Let us take the lowest kind of salmon, pinks and chums, which sold in Canada for \$13.50 a case as compared to \$25 for the sockeye.

Mr. DIONNE: What about the price on the American market for this type of salmon?

Mr. PENNEY: The price was around a net of \$17.

Mr. DIONNE: If you add a duty on to it?

Mr. PENNEY: You add the 8 per cent to the \$13.50, first.

Mr. DIONNE: You have no 8 per cent when you export your goods.

Mr. PENNEY: For duty purposes.

The VICE-CHAIRMAN: Not any more.

Mr. PENNEY: No, but I am trying to compare last year's operations.

The VICE-CHAIRMAN: Mr. Dionne wants a comparison for next year.

Mr. PENNEY: There is no comparison for next year because we do not know what the price will be.

Mr. BREITHAUP: I was wondering whether the industry planned to extend its sales through ERP, which was formerly known as the Marshall Plan? Would that not be of some assistance?

Mr. PENNEY: It is in such a nebulous state, I do not know what that policy will be.

Mr. TIMMINS: As a matter of fact, the Department of Trade and Commerce is calling upon industries throughout Canada to find out how much they can produce and will produce. It seems to me your industry is a natural for ERP, having regard to the fact Great Britain wishes your goods but cannot afford the money to buy it.

Mr. PENNEY: I would not make this as a matter of outright statement because I am not informed on ERP or ECA as it is called now, but the subject of fish is not looked upon with great favour by the American authorities under ECA.

Mr. BREITHAUP: I do not think it is a final decision. I think it is a selling job on your part, from information we have received.

Mr. PENNEY: We would like to try it.

The VICE-CHAIRMAN: Are there any more questions of Mr. Kemp or Mr. Penney on this very interesting subject?

Mr. JAENICKE: I think we should call Mr. Deutsch back to give us an explanation of what this treaty is good for.

The VICE-CHAIRMAN: If we are finished with these gentlemen, we might call Mr. Deutsch. I want to thank you, Mr. Penney and Mr. Kemp for the information you have given us. Mr. Deutsch has been on his feet a couple of times already, but there are a few questions these gentlemen desire to ask in connection with this industry.

Mr. J. J. Deutsch, Director of Economic Relations Division, Department of Finance, recalled:

The VICE-CHAIRMAN: Mr. Fraser, I think you wanted to ask some questions of Mr. Deutsch.

Mr. FRASER: No, Mr. Deutsch was on his feet a couple of times and I thought he was going to give us some information to elaborate what Mr. Kemp was saying.

By Mr. Timmins:

Q. May I ask one question that has been kicked around here for quite a while. The United States has only got one list. Great Britain only has two lists, the British preference and the rest of the world. Is that correct?—A. Yes.

Q. Does that fact as to those two big countries, which are really the backbone of this matter of the Geneva Agreement, not work against the interests of a small country like Canada? Can you explain that to us pro or con?—A. Well, the United States has followed the policy for some years now of according one rate to all the countries with which it has made trade agreements.

By Mr. Quelch:

Q. Under Geneva?—A. No, under the Reciprocal Trade Agreements Act, which began as far back as 1934.

By Mr. Michaud:

Q. In other words, there is in every trade agreement an implied clause whereby, if in a subsequent agreement with other countries better treatment is accorded to those countries, the first country gets the same benefit?—A. That is right. That applies to all countries with which the United States has an agreement. There are some countries with which it has not had an agreement. I believe before the war the United States did not accord a single rate to all countries. In fact, before the war she did not give M.F.N. treatment to Germany, for instance, and for a time not to Russia. They applied the Hawley-Smoot tariff to those countries, but sometime during the 30's they made an agreement with Russia in which they undertook to grant most-favoured-nation treatment to Russia. That agreement is still in effect, and it is under that agreement that the concessions made at Geneva are extended to Russia.

By Mr. Timmins:

Q. How about Japan?—A. Japan was an enemy state, and I understand that all most favoured nation agreements during a state of war fell to the ground. As far as I know at the moment Japan does not receive most favoured nation treatment.

By Mr. Low:

Q. She is still an enemy alien?—A. She is still an enemy country.

Q. There is no treaty?—A. All our most favoured nation agreements with enemy countries fell to the ground, and at the present time we do not give most favoured nation treatment to Japan nor to Germany. We have given most favoured nation treatment to Italy because a peace treaty has been made with Italy.

By Mr. Quelch:

Is it being given to all countries other than enemy aliens?—A. Yes. In the case of Canada we give most favoured nation treatment to a very large proportion of all the countries.

Q. Is that just a temporary situation? Is it the intention to stop doing that shortly?—A. Well, in our own case we have extended the Geneva reductions to all the countries with which we have most favoured nation agreements, but we have not committed ourselves to do so. We have not committed ourselves to continue to do so. We are doing it in the meantime. We are entitled under the Geneva Agreement to withdraw the Geneva concessions from those countries that have not signed the agreement if we wish to. In the meantime we have extended it to them in the expectation these other countries will similarly make reductions under the Geneva Agreement. We are allowing a period of time in which these things may be carried out. If the other countries do not give us

similar concessions we are entitled to withdraw our most favoured nation privileges to those countries. If they do not give us concessions the government will have to decide whether it wishes to continue to give most favoured nation treatment or if it wishes to withdraw such treatment.

By Mr. Timmins:

Q. We are under an impediment when we do that. We may be under the penalty of losing certain other concessions.—A. That is right. If we withdraw most favoured nation treatment from any country they, of course, are at liberty to withdraw them from us. The government has to decide where the balance of advantage lies.

Q. To get back to my first question, under Geneva the United States lowered her tariffs on quite a number of commodities to us.—A. That is right.

Q. But we do not get any advantage over Russia in respect of that reduction of tariff because although Russia is not a member of Geneva she had an agreement— —A. With the United States.

Q. So to that extent— —A. Concessions are extended to Russia in the same way they are extended to us, but there is one very important point here, and Mr. Kemp referred to it. That is that the items on which reductions were made at Geneva were only items which were of principal interest to the countries which were at Geneva. The United States did not make reductions and Canada did not make reductions on items which were of main interest to countries which were not at Geneva. In other words, we did not negotiate about those commodities which were of main interest to countries which were not at Geneva.

By Mr. Michaud:

Q. For example, as to seed potatoes we are the only country which can expect to be able to sell seed potatoes to the United States?—A. That is correct, and therefore a concession on seed potatoes was in fact, although theoretically available to everybody, chiefly of interest to us, and that was the case in every commodity that was undertaken for negotiation. There were some commodities in which countries not at Geneva had some interest but they did not have the main interest. Of course, they may get some incidental benefit out of that interest, but the main benefit will go to the countries which were at Geneva because only those commodities were taken which were of principal interest to the countries at Geneva. To that important extent there is a distinction made between countries that signed at Geneva and countries that did not sign.

By Mr. Jaenicke:

Q. Provided trade remains on the same trend?—A. That is right.

Q. Was there any commitment by the countries, by the United States, for instance, not to renew these most favoured nation agreements when they expire? —A. No, but it was anticipated at Geneva that the other countries which were not there would, in the relatively near future, all of them undertake to negotiate for reductions of their tariffs, and to join the Geneva club. At Havana there were 51 countries present. At Geneva there were only 23. At Havana 51 countries were present and some 50 of those countries signed the final Act.

By Mr. Michaud:

Q. Is Russia one of them?—A. No, Russia was not one of them. If countries accept the charter which was concluded at Havana they take the obligation to enter into tariff negotiations with each of the other countries. If they do so to the satisfaction of the members of Geneva they then can join the Geneva club, and they will give concessions and receive concessions. The expectation is that these tariff arrangements will be spread to include practically the whole of the rest of the world, and then we will all be in the same position.

By Mr. Low:

Q. At the present time the only concessions that Russia gets will be by virtue of the agreement between herself and the United States under most favoured nation?—A. That is correct.

Q. Not as a result of Geneva?—A. That is right.

By Mr. Quelch:

Q. You would say that Canada as a whole on balance benefited by the manipulation of the tariffs as carried out at Geneva?—A. Yes.

Q. Would you say any one single province was penalized as a result of the gain for Canada? For instance, we have been given the case of British Columbia. They appear to have been penalized on the question of apples and the question of salmon. Would you say that certain other benefits they got would more than balance those losses?—A. My own personal opinion—and you must only take it as being my own personal opinion—is that I do not think that any province in Canada was penalized. I think all of them benefited on the whole from the results at Geneva. In the case of British Columbia I think one fact has to be emphasized, that the two items mentioned are in particular difficulties at the moment, not because of what was done at Geneva, as Mr. Kemp has pointed out, but because of the balance of payment position of the United Kingdom. That is the real basis of the trouble at the present time.

Mr. Low: Taking that into the future—

By Mr. Quelch:

Q. We are overcoming that difficulty with regard to other exports in relation to agricultural products by exporting such things as wheat, meat and pork.—A. Yes. It so happens that apples and salmon are not regarded as essential foodstuffs, by the United Kingdom at this time. That is an unfortunate fact. While we are selling wheat and bacon and so forth they are placed on a higher priority by the United Kingdom than are apples and canned salmon. They have not got enough dollars to buy everything they wish to buy; they have to make a choice and in that choice they have not placed salmon and apples in a high priority. That is the unfortunate fact, and it is due to the shortage of dollars.

The present difficulties of these two cases are entirely due to that situation. I fully agree with Mr. Kemp that whatever was done at Geneva it had no responsibility for this present situation; it has to be solved in some other way.

By Mr. Fraser:

Q. Rolled oats is in the same position?—A. Yes, rolled oats is in the same position, because they are not placed in a high priority.

Q. No, but they will take luxury goods, such as puffed wheat and puffed rice, but not rolled oats?—A. That is something which is in their hands.

By Mr. Low:

Q. What about the future situation?—A. In the future, sir, we have reduced preferences; that is true; but the preference still remains a fairly significant preference. We will still take advantage of those markets. In return for the reduction of preferences; we got concessions elsewhere. It remains to be seen whether the concessions are equal to the losses.

By Mr. Quelch:

Q. What would be the incentive to bring non-participating nations into Geneva if at the present time they are going to get the benefits and not take on the obligations?—A. Of course, the benefits are in large measure only incidental.

They do not get any benefits on the commodities which they are most interested in exporting to the Geneva countries, because no concessions were given on them; if they want concessions they will have to come and negotiate. The benefits they now receive are purely incidental benefits, they do not apply to the main items on which they are interested, because we did not negotiate about them. And so the incentive is to come along and get concessions on the main products in which they are interested, and they must come and negotiate.

By Mr. Fraser:

Q. If we have a horse to sell they must come and buy it?—A. Yes, if they do not want to trade in horses we cannot make them.

By Mr. Quelch:

Q. If we needed that horse we would give a concession for it.—A. If we wanted that horse and it is advantageous to us we are prepared to do business. Of course, we have the further situation, that even those incidental benefits may be withdrawn from them if we choose to do so. We are perfectly at liberty to withdraw them; and in our own case we have only provisionally made those incidental benefits available, and the government at some stage will be free to decide whether it should continue to do so. If it decides not to do so it would be perfectly free to withdraw them.

Mr. MARQUIS: Mr. Chairman, I move we adjourn.

The CHAIRMAN: Before we adjourn there is one question that has troubled me for some time. We have been on this subject here off and on since the 12th of March. We have been sitting nights and we have been giving advantage to the other committees who were sitting mornings and afternoons. I thought we might consider now sitting in the morning or afternoon. I think in order to be able to get through with this Geneva treaty we will have to do that; and, further, there are I understand three other bills which going to be referred to us beside the Loans Companies Act. I thought it might be a good idea for next week for us to advance the number of our sittings and the time of our sittings, but I am in the hands of the committee to decide what we should do about that. Could we sit on Tuesday?

Mr. FRASER: The budget is supposed to come down next Tuesday.

Mr. TIMMINS: Some of us are on three committees and when they all sit at one time it is rather a disadvantage. It is better if one is only on two committees.

The CHAIRMAN: I know, but it is a question of when we are going to finish with this Geneva agreement.

Mr. JAENICKE: How about sitting Monday morning?

Some Hon. MEMBERS: Oh, no.

The CHAIRMAN: What about Tuesday morning and afternoon. I see that veterans and prices are sitting on Tuesday.

Mr. Low: And there is also the special committee on rules.

Mr. TIMMINS: And industrial relations.

The CHAIRMAN: Well, we will leave it this way. We will sit on Tuesday in the morning and afternoon, and we will sit on Thursday, morning, afternoon and evening. We have Mr. Oakley coming on that day, and we will have to accommodate him. The committee stands adjourned until Tuesday next at 4 o'clock, and we will sit three times on Thursday.

The committee adjourned.

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(SESSION 1947-1948
HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 9

Subject-matter of the General Agreement on Tariffs and Trade,
including the Protocol of Provisional Application thereof,
together with the Complementary Agreement of
October 30, 1947, between Canada and the
United States of America.

TUESDAY, MAY 18, 1948

WITNESS:

Mr. J. J. Deutsch, Director of Economic Relations Division, Department
of Finance.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY

1948

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, Room 430,

Tuesday, May 18, 1948.

The Standing Committee on Banking and Commerce met at 4.00 o'clock p.m. Mr. G.-Edouard Rinfret, Vice-Chairman, presided.

Members present: Messrs. Argue, Arsenault, Black (*Cumberland*), Blackmore, Breithaupt, Côté (*St.-John's-Iberville-Napierville*), Fraser, Harris (*Danforth*), Jackman, Jaenicke, Low, Marquis, Probe, Rinfret, Timmins.

In attendance: Mr. H. B. McKinnon, Chairman of the Tariff Board; Mr. J. J. Deutsch, Director of the Economic Relations Division, Department of Finance; Mr. H. R. Kemp, Director of Commercial Relations Division, Mr. A. L. Neale and Mr. G. C. Cowper, of the Department of Trade and Commerce.

The Vice-Chairman read a communication from Mr. T. Oakley, President, Canadian Importers and Traders Association, Inc. (*See today's Minutes of Evidence*).

Some discussion took place concerning future sittings. It was unanimously agreed that the Committee would sit at 4.00 o'clock p.m. and 8.30 o'clock p.m. on Thursday, May 20, 1948, and again at 10.30 o'clock a.m. on Friday, May 21.

The Committee then resumed the adjourned consideration of the Final Act of the Second Session of the Preparatory Committee of the United Nations Conference on Trade and Employment, held at Geneva from April 10 to October 30, 1947.

Mr. Deutsch was called and examined thereon.

At 6.00 o'clock p.m. the Committee adjourned to meet again at 4.00 o'clock p.m., Thursday, May 20, 1948.

ANTOINE CHASSÉ,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
May 18, 1948.

The Standing Committee on Banking and Commerce met this day at 4 p.m. The Vice-Chairman, Mr. E. Rinfret, presided.

The VICE-CHAIRMAN: First of all I want to inform you I have here another letter from the Canadian Importers and Traders Association.

I find that it will be impossible for me to get to Ottawa next week as I had hoped to do. I have two English manufacturers arriving next week for the Canadian International Trade Fair whom I have asked to be my guests. Our time promises to be so fully occupied with matters pertaining to the Canadian International Trade Fair that I am afraid it will be impossible for me to find time to go to Ottawa until it is over.

It has occurred to me and my colleagues that we could present our views to your committee in the form of a brief, if you would like us to do so.

Will you please advise me.

That letter is dated the 14th of May, 1948. Is it the wish of the committee that we communicate with Mr. Oakley and ask him to submit a brief on the question?

Mr. Low: Yes, I would say so.

The VICE-CHAIRMAN: All right.

Carried.

We had put Thursday night aside for Mr. Oakley and the Canadian Importers and Traders Association. I suppose we can continue with Mr. Deutsch at that time. On Thursday morning we thought we might have another meeting. I find that it is impossible for me to be here on Thursday morning but I will be here Thursday afternoon. May I suggest that we have another meeting on Friday morning and maybe on Friday afternoon with the hope that we may finish with Mr. Deutsch by Friday night.

Mr. JAENICKE: Yes. It is not only that. I heard the Minister of Finance pass a remark that the income tax bill will come to us, too.

The VICE-CHAIRMAN: If it is possible I think we should finish this week with this matter.

Mr. JACKMAN: I expect the budget debate will be resumed on Friday.

Mr. JAENICKE: I expect so.

Mr. JACKMAN: If we meet on Friday we conflict with that.

Mr. JAENICKE: Unless you are the financial critic I do not know why we cannot meet.

Mr. JACKMAN: We are all financial critics in this committee.

The VICE-CHAIRMAN: Can we agree that we will sit on Thursday afternoon, Thursday night and Friday morning?

Mr. JAENICKE: That suits me.

J. J. Deutsch, Director of Economic Relations Division, Department of Finance, recalled.

The VICE-CHAIRMAN: The last time Mr. Deutsch was with us we stopped at the consideration of subsection 3 of article III. Are there any questions on subsection 3 of article III? Are there any questions on subsection 4 of article III? Are there any questions on subsection 5 of article III? Are there any questions on article IV, Special Provisions relating to Cinematograph Films?

By Mr. Jackman:

Q. Perhaps Mr. Deutsch might explain exactly what this covers? I suppose this is a concession to the United States, is it, a concession to United States producers?—A. Yes. The point of this article is that it recognizes that the imposition of duties and tariffs is not an effective form for protecting the national producers of films. Most countries which have endeavoured to protect their film industries have used quotas rather than duties. This article says that such quota systems may be continued. It says where such quotas are applied they must be applied in a non-discriminatory manner. In other words, most favoured nation treatment must be given.

Q. The regulations are all against importation, not upon the export of the royalties?—A. That is right. This simply states that countries may, if they wish to, put quotas on foreign films.

Q. In other words, if Canada were to put a quota against American films coming in the same quota regulation would have to apply against British films coming in.—A. That is right. You can use quotas, but if we do use them they must be non-discriminatory. That is what the clause says.

The VICE-CHAIRMAN: Are there any other questions on this?

By Mr. Timmins:

Q. What did we work out at Geneva in respect of quotas, anything as between ourselves?—A. No, we had in the past a small duty, and the situation was bound. We did not negotiate any quotas at Geneva.

By Mr. Marquis:

Q. Canada has the right to fix her own quota provided that the same quota is applied to other countries as to the one to which it is fixed.—A. Yes, provided that the treatment is not discriminatory. Generally the way it is done is that the theatres are required to show a certain quota of national films. That is usually the way it is done, and then they are allowed to import films over and above that quota. In the allowance to import you must lay down a restriction that they must take so many from the United States and so many from the United Kingdom. Theatres must be given their own choice in determining where they get their films.

By Mr. Timmins:

Q. That is rather an academic matter in so far as Canada is concerned.—A. Yes.

Q. Because we do not manufacture films?—A. No. As a matter of fact, this was mostly for the British and for the French and New Zealanders. The New Zealanders have a quota system whereby they gave a preference to the British films. You will see later on in this clause near the end of it a statement saying that such preferences as were in existence may be continued. Therefore that enable New Zealand to continue to give a preference to the United Kingdom, but does not allow the establishment of any new preferences.

By Mr. Jaenicke:

Q. How would that preference be established, by the number of films allowed in?—A. Usually what they do is this. If they want to protect their own industry they usually require their theatres to show a certain proportion of national films. In the case of New Zealand they would say they have to show a certain proportion of British films. New Zealand has no industry of its own, so the way they have it is that the theatres must show a certain proportion of British films.

Q. We have no such regulation?—A. No.

By Mr. Timmins:

Q. We have no preferences in so far as the United Kingdom is concerned?—A. Not by quota.

By Mr. Jaenicke:

Q. Is the duty still in existence in Canada?—A. There is a small duty.

Mr. McKINNON: One and a half cents a foot.

Mr. JAENICKE: Does that apply to the British as well as to the American films in the same way?

Mr. McKINNON: Yes.

The VICE-CHAIRMAN: Any other questions on this article?

By Mr. Jackman:

Q. The section is obviously for the protection of the American producers. We have no way of getting around the non-discriminatory feature as we have in the cotton textile industry. For instance, there is no conceivable base I can think of where we could relate back to heavy importation of British films and thus cut down the American. If we were to put a flat quota relating to American importations it would have to allow very heavy American film importations because there are not very many British films available?—A. That is right.

Q. We cannot relate it back to anything that would give a soft currency debtor country like Great Britain a preference, can we?—A. Not by the formula we have used in the case of commodities. I do not think it would give a very good result, as you point out. We would not have a base period in which British films were a very large factor in the situation.

Q. This is really a concession to the Americans. I presume they battled very hard for the film industry, did they?—A. Yes, because their film industry, as you know, has had great difficulties in recent years in their export market. Everywhere they have been cut down very severely, and the United States was very anxious to get something in here. This does not prevent domestic protection, but it does prevent discrimination against them. That is all this article does.

Q. What form of domestic protection could we have resorted to?—A. Ourselves?

Q. Yes.—A. If we wanted to we could have imposed a quota, in effect a quota on American films coming to this country, on all films coming to the country.

Q. That means we do not get any films?—A. In our case it is not appropriate because we do not have any industry. If we had the idea we were going to promote an industry in Canada by means of protection we could have used this clause.

By Mr. Jaenicke:

Q. But we now do it by way of tariffs?—A. We have now bound the item.

Q. We have bound the item?—A. Yes, but at that time we could have refused to bind it and used the tariff for protection, but tariff has never been an effective method of protecting the film industry.

By Mr. Low:

Q. Why?—A. It has to be a sort of fantastic thing to get any real protection out of it. In the first place, where you are starting off in the film industry it is very difficult to counteract the superior appeal of Hollywood. Unless you put an absolute prohibition in the way or an absolute quota in the way it is very difficult. That is what other countries have discovered. The only way to handle it is to put a quota on and require your own theatres to show a certain proportion of your own films. Then you are sure those films will not come in. They will jump almost any conceivable tariff.

By Mr. Jackman:

Q. I wonder if you can tell me what Canada could have done in this case. We are losing a lot of our precious United States exchange for the payment of royalties to the American producers, and on certain other commodities such as vegetables from the United States we have put on no prohibition or embargo whatsoever. According to Mr. Howe Canada was supposed to get some kind of quid pro quo for that by way of United States producers doing certain work in Canada and spending certain of their Canadian or even United States exchange in this country. If the American producers had not been agreeable to that wherein lay our bargaining power?—A. You are now referring to our exchange controls. We have under the escape clause—

Q. As to that escape clause, in no place have we exercised any jurisdiction by reason of the authority given to us under the escape clause re exchange, have we?—A. Yes. You see in the first instance this agreement does not permit you to put quotas on imports except under the balance of payment escape clause. Now, we have done so.

Q. All by reason of the currency situation?—A. The general balance of payments situation. We have invoked the balance of payments clause of this agreement, and our present quotas and prohibitions have been put on according to the provisions of the balance of payments escape clause here.

Q. But under the escape clause through balance of payments we were allowed to discriminate?—A. Yes.

Q. We have not resorted to discrimination under the balance of payments escape clause?—A. That is true. We have not used the escape clause in all its application, that is right, but we have used the escape clause as far as the general balance of payments situation is concerned. We have not gone as far as we might go in the way of discrimination. That is true.

Q. In view of Canada's predicament, and imminent predicament, in regard to hard currencies would you have thought it against the spirit of Geneva or Havana if we had used discrimination in regard to imports from certain countries?—A. I would like to answer your question, but we are now straying off into another part of this charter which we will come to shortly, and if we keep on with this discussion we are likely to get crisscrossed. It is not that I do not want to answer your question. It is just that it might be more orderly to discuss that when we come to the balance of payment section.

By Mr. Timmins:

Q. May I ask one more question? We have a very small duty on films coming into Canada from all nations which are signatory to Geneva. If we

at some time desire to protect the Canadian industry are we in a position to up those tariffs?—A. No, the tariff is bound although this agreement is only for a term of three years.

Q. 1951?—A. Yes. Suppose between now and then the government decides that they want to protect the domestic industry; at the end of that three year period they would simply tell the other countries that they did not propose to bind that rate again.

Q. And then new treaties would have to be negotiated.—A. New negotiations would have to take place. Other countries might say, "If you are going to unbind this particular rate then you either have to give us an equivalent concession elsewhere or we will withdraw some of the concessions we have given you." You get back into negotiations again, but at the end of that three year period you are free to say that "we propose to unbind that rate."

By Mr. Marquis:

Q. You say this agreement is only for three years?—A. Yes.

Q. It is only a provisional agreement now so that it will be a provisional agreement until its term has nearly expired, because it probably will not be final before two or three years?—A. It may not be. The expectation now is that it will become ratified some time next year.

Q. Perhaps when it becomes final another agreement may be drafted.—A. We do not know what the future holds.

Q. It may be changed.—A. We do not know precisely what the future holds, but the expectation now is it will be ratified some time during next year. This three year period I was talking about began on January 1, 1948, and it will run until January 1, 1951. I may say at that point it does not expire automatically. It only expires on notice of termination. If nobody gives notice of termination it runs on.

Q. It is like a lease?—A. Yes.

By Mr. Black:

Q. What notice has to be given by one country to another of termination?—A. We are coming to that. That is another section. We might leave that until we get there.

THE VICE-CHAIRMAN: Are there any questions on article V, Freedom of transit?

By Mr. Fraser:

Q. This would deal with trucks coming into Canada and out again, which we discussed once before.—A. Yes, sir.

By Mr. Timmins:

Q. What benefits, if any, do we get under this section? We have not any similar routes over American territory as they have over our territory?—A. I believe we have 5,000 miles of railway lines in the United States.

Q. I was thinking more of truck transit.—A. Oh, trucks; this covers all forms, railway, truck and water. Under this article countries agree to allow the traffic of another country, a member of this club, to move across their territory subject to reasonable regulations and conditions.

By Mr. Probe:

Q. By that you mean provincial licensing, and the usual provincial prohibitions and regulations?—A. That is right. It does envisage the imposition of reasonable regulations, in other words, the payment of reasonable fees and

meeting reasonable conditions, and so forth. You are not required to let traffic pass without meeting your reasonable requirements. In other words, they must pay reasonable fees and they must meet reasonable conditions, and so on.

Q. And those conditions are automatic, that is, if a province sets up certain conditions for its own trucks such as licence fees, those same conditions must be met by these people.—A. Certainly; those would certainly be reasonable conditions. In other words, if you have imposed certain conditions on your own trucks the imposition of those conditions on foreign country trucks is certainly reasonable.

By Mr. Marquis:

Q. There was an application made in Ontario for a permit of that kind, and the American consul appeared before the board. I do not know if that comes under this provision.—A. Yes, this is the provision under which that came. A trucking company applied, as I remember, and the consul came along to support the trucking company's application. It was an American trucking company.

Q. It would be subject to the provincial regulations of that province?—A. Yes, because the province lays down the conditions regarding the use of roads. I understand the provincial board heard the application, and as far as I know no decision has yet been made by the provincial board, but it was envisaged in this clause that reasonable regulations would have to be met.

By Mr. Timmins:

Q. Such as a charge for mileage, we will say?—A. Certainly; it was envisaged that reasonable charges would be made for the use of the roads.

Q. Down in the western part of Ontario we have one line running across there, have we not?—A. Railway line?

Q. No, a truck service from Windsor to— —A. Buffalo, Fort Erie. The Americans usually run from Buffalo to Detroit.

By Mr. Marquis:

Q. Did that line exist before the agreement?—A. Well,—

Q. It was operated?—A. No. Generally speaking the Canadian government did not allow trucks to go in bond across Canadian territory except during the war. During the war the Canadian government allowed American trucks to carry war materials, or goods essential to the war effort in bond across southern Ontario as a wartime measure.

Q. Has the same privilege not existed for Canadian trucks through Maine?—A. Yes.

Q. Is there not a line existing now?—A. I do not know, but if Canadian trucks wanted to go across Maine territory they would have the privilege under this clause to do so.

Q. You do not know if there is a line existing now? I have been told there is one.—A. I have been told also there is some interest there.

By Mr. Timmins:

Q. It would have to start on Canadian soil and end on Canadian soil, would it not, to come within the section?—A. That is true. This applies to traffic moving across a territory beginning in another country's territory and ending in that other country's territory.

Mr. HARRIS: I should like to put something on the record for information. The witness mentioned Detroit and Buffalo. Trucks from Detroit would be sealed by the bonding officers of the Canadian government?

The WITNESS: That is right.

Mr. HARRIS: At the port of entry, Port Huron, and the Canadian government officers would examine them as well when they went into the United States at Buffalo?

The WITNESS: That is right.

Mr. HARRIS: Just as a matter of information to the committee I should like to put a statement on record as to what happened some years ago. In fact, I think it was before the war or during the war. The traffic is not very desirable traffic for the people living between Detroit and Buffalo. They do not like to see our highways being used for that purpose and destroyed and what not. It makes quite a traffic artery which is quite a nuisance to the residents of the district. The point I want to be abundantly clear on is there no possibility of any collection of merchandise, for example, by the trucks. There is no possibility of the collection of any merchandise by the trucking services which you are thinking about, collection en route, as an example?

The WITNESS: No.

Mr. HARRIS: Let me raise one point which actually happened during the last ten years. The ownership of these trucks was put in the name of Indians. The Indians owned these trucks. The native North American Indian can cross the border forward and back without let or hindrance. He is as much a citizen of the United States as he is a citizen of Canada. When this privilege was denied of collecting goods between Detroit and Buffalo, the Buffalo trucking company to get over the difficulty circumvented it by putting ownership of the said trucks in the name of Indians. The Indians driving those trucks, which they were supposed to own, came into Canada and made their collections and returned back to Buffalo or went to Detroit with collection of Canadian merchandise bought on the market here, and in turn sold such merchandise at highly inflated prices to the Buffalo and Detroit buyers. I just trespass on the time of the committee long enough to put this on the record. I wonder whether it would be possible to control this. It has nothing to do with this Geneva trade pact, but I did wish to put it on the record. Thank you, Mr. Chairman.

The VICE-CHAIRMAN: Are there any questions on Article No. VI?

By Mr. Timmins:

Q. I am still on Article V. You mentioned something about there being 5,000 miles of railway line which Canada uses over United States territory. Those lines would not start on Canadian soil?—A. No.

Q. That is a different thing?—A. I was not referring there to the lines which simply start on Canadian soil and end on Canadian soil, although there are quite a number of those.

Q. In the old days, the Canadian National used to run down through Minnesota and back up into Canada again?—A. That is right.

Q. That does not prevail any longer?—A. I do not think so, in that particular case. We have a line running across Maine, starting on Canadian soil and ending on Canadian soil.

Q. This may be an ignorant question on my part, but considering the Alcan highway, would it be possible for a United States army truck to start in the United States and end up in Alaska via the Alcan highway?—A. Yes, I think so. I think that would be a case where the movement started on American soil and ended on American soil.

Q. How far would that carry? Supposing there came to be a real financial bonanza up in Alaska, would we have to permit that traffic backwards and forwards, no matter how extensive it might be?—A. When you say that, Mr. Timmins, it does not require you to do anything unreasonable.

Q. Supposing the upkeep of the highway was terrific and we did not want to keep it up since it was being monopolized by American interests?—A.

We could impose such reasonable regulations in that respect as we felt were necessary. In other words, if the traffic were such that the people in Canada were pushed off the road, we could certainly put on reasonable regulations which would give our people a reasonable right—not only a reasonable right, but a legitimate right to their roads.

Q. I was thinking of the cost of upkeep?—A. We could require them to make such contribution as was necessary to keep the roads up.

By Mr. Breithaupt:

Q. That is covered by clause (4)?—A. Yes.

By Mr. Marquis:

Q. Otherwise, we would be paying for the maintenance of a road which was used by the Americans only?—A. We would be perfectly within our rights what we considered to be a reasonable fee for the upkeep of the road.

Q. In so far as provincial rights are concerned, in order to clarify that, may I ask whether such a trucker would be obliged to have a provincial licence?—A. Yes.

By Mr. Jaenicke:

Q. Supposing there is a complaint made that the licence fee is unreasonable? What will we do about it?—A. In the first instance, we will say it is reasonable. After all, if you are going to come here, you have to pay the fee. If you do not pay it, you cannot come here.

In practice, what would happen would be this: we would say our fee is so and so. Some might say, "We are not going to pay that fee". Then, we would reply "You cannot come on our roads if you do not pay this licence fee." If the country aggrieved were the United States, for example, the United States might say, "No, we think you are being unreasonable." They must then make their complaints to the committee of the contracting parties.

Q. Supposing this committee says it is unreasonable, what will we do with our province?—A. If the committee says Canada is acting unreasonably, they will then make a recommendation to Canada setting out that, in their view, we are being unreasonable and we should modify our position. Suppose we do not do so? We say, regardless of what the committee thinks we are going to stick to our decision. In that case, what will happen is this: the United States then will have a clearance from the organization to remove certain concessions from us. In other words, the United States has given us concessions in tariffs on one thing and another in the agreement. They will then be entitled to withdraw certain concessions.

Q. This article really has nothing to do with international trade. What has this clause got to do with international trade?—A. It is not connected with it in every instance, but there are—

Q. So far as the United States and Canada are concerned, I mean. I can see where it would in Europe.—A. This is a different matter in Europe.

It seems to me that, at this point, we need to keep in mind we are talking of a new form of transportation. This sort of privilege has been accorded by each of these two countries to the other for a long time so far as railways are concerned. You could make the same argument with respect to railways or air transport. Why should we allow American traffic to move across Canada or why should the Americans allow Canadian traffic to move across the United States?—A. A long time ago, that was settled. Both countries consider it to be advantageous, as a whole. The difficulty arises when we come along with a new form of transportation. The only thing that is suggested here with respect to this new form of transportation is that we should give one another the same privilege as were accorded with respect to railways. The principle was settled long ago. The only issue is that a new form of transportation has arisen, namely highway trucking.

By Mr. Probe:

Q. Up until now, we have been speaking of traffic which begins and ends in the territory of one of the parties. Would this article be applicable, say, to traffic commencing in Windsor and ending in Mexico City, or traffic across the borders of another, into a third country?—A. Yes, this would also apply. Further down in the article, it is mentioned.

By Mr. Fraser:

Q. The way I look at this, Mr. Chairman, is that all we can charge in Canada is the same rate as would be charged a provincial truck. I do not think we can get away from that?—A. That would be one of the first things that would be looked at in considering whether it was a reasonable charge. What are you charging you own trucks; that is quite true. However, I do not think you are necessarily limited to that. If some particular situation arose out of the fact foreign trucks were running, I think that could be recognized. In other words, if the fact foreign trucks were running across our territory meant that the traffic on the road was tremendously increased, that would be a situation which would have to be taken into account.

By Mr. Low:

Q. Take the truck-train situation during the war in the province of Alberta. While they were building the Alcan highway, we had that problem to contend with. It did create a very serious situation on the highways.—A. I think where you have a serious situation created, you can take that into account. You are not required to allow people to go across your roads and destroy them.

By Mr. Fraser:

Q. During the war those trucks which were used on the Alcan highway were not paying into the coffers of the province?—A. That is true, there were some special arrangements in that connection.

Q. I suppose these trucks would pay into the coffers of the province, but we would have to have the same rate as pertained in the United States or in Mexico?

By Mr. Low:

Q. Even in peace-time, we have truck-trains going across our territory into Alaska. We have to put on a special regulation because they pound the highways to pieces.—A. I would think you were quite entitled to do that.

By Mr. Marquis:

Q. If a road crossed the parts of two provinces and one province objected to the granting of a permit for a truck line, I understand it would be impossible for the United States to establish that line?—A. I think a province could do that. You are quite right, sir. A province, if it wished, could say we will not let trucks cross. After all, the roads are provincial property.

What would happen then? So far as this agreement is concerned we, as the federal government, are obliged to use our best offices, to use diplomatic language in this case, to try to see that a province helps to carry out this agreement. If a province refuses, we cannot do any more than that.

Q. There is another aspect of the problem. You see, we can take out a licence in Ontario or Quebec and travel throughout this country. If the operators of a United States bus line took out a licence in Ontario or Quebec, perhaps the province may object because the company was not domiciled in Canadian territory?—A. Yes, they would have to meet the provincial requirements.

By Mr. Low:

Q. We, in turn, would have to meet the state requirements?—A. Yes.

By Mr. Marquis:

Q. In what section do you find that reference to the provincial situation?—
A. That is not in this particular clause, only. You see, in the case of the federal states, a new problem arises all through the agreement on that question. The position of the provinces was discussed quite thoroughly. The United States has the same problem with respect to their states. We agreed that all we could do here was to make commitments so far as the federal government has authority to make them. It cannot commit a province, you see. We made that quite clear. We always made that quite clear to everybody. We cannot commit a province. All we can do is to use our best offices to try to persuade the province to help us carry out this agreement.

Q. If there were a proviso in the agreement, I would prefer it because some provincial government may say we are legislating on matters pertaining to provincial jurisdictions and might criticize this legislation. I have not had time to examine the whole agreement, but if there were some kind of provision in the agreement with respect to that, I should like to know about it.

By Mr. Probe:

Q. It would be a good argument for the building of a trans-Canada highway.

By Mr. Timmins:

Q. Are we not getting away from our field? Those rights are inherent as between the provinces and the federal government?—A. This same question arises in several places.

The VICE-CHAIRMAN: Are there any questions on article VI?

By Mr. Timmins:

Q. In respect of anti-dumping duties, might I ask a question? Let us consider, for a moment, boots and shoes. Apparently, we did not make any appreciable impression on the Americans in respect of lowering the duties on Canadian shoes going into the United States?—A. I do not know, offhand. That is Mr. Kemp's field. Do you know, Mr. Kemp?

Mr. KEMP: That would be a Czechoslovak item, anyway.

The WITNESS: We are not the principal suppliers of boots and shoes.

By Mr. Timmins:

Q. Take it the other way, then. The United States can manufacture boots and shoes a great deal cheaper than we can here. Supposing our local price for a certain shoe is \$12 and the United States can put that shoe into our market at \$10. Ordinarily, I suppose the anti-dumping tax we would charge would be \$2?—A. No, it depends on what price the shoes are sold at in the United States. The anti-dumping clause only comes into play when there is dumping. "Dumping", in the sense of the word here and in the sense the word dumping is usually used is that the goods are sold abroad at a price that is lower than the price at which they are sold at home.

If the shoes were sold in the United States at \$10 and were also being sold in Canada at \$10, there is no dumping, so the anti-dumping clause would not come into effect in that case. The only thing which would come into effect would be your duty.

Q. Could you give us an explanation of these words at the end of the first paragraph,

Due allowance shall be made in each case for differences in conditions and terms of sale, for differences in taxation, and for other differences affecting price comparability.

—A. Well, this first paragraph, Mr. Timmins, defines what is meant by a margin of dumping. It goes on to say that “where a price is less than a comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country—” In other words, if the goods are exported abroad at a price less than that at which they are sold at home, then there is dumping, you see. In that case, you can put on the anti-dumping duty.

Now, it goes on to say, when you are making that comparison between the export price and the domestic price, you must make due allowance for the terms of sale, for differences in conditions and so on. I think that is reasonable. Suppose you are selling at home on long-term credit arrangements. You give credit for six months or a year. When you are selling abroad, you are charging cash. Obviously, when you are charging cash you can sell for a little less than when you are selling on credit.

By Mr. Low:

Q. Or when there is an 8 per cent sales tax at home?—A. Yes, and no sales tax abroad. These are all reasonable items which you must take into account when you compare the two prices. Is there any credit involved? How big are the quantities? Naturally, you could sell a large quantity at a somewhat lower price than you could sell a very small quantity. These are things which are considerations in ordinary commercial practice.

Q. In any case involving a dispute as to what constitutes dumping, who makes the final decision?—A. In the first instance, Mr. Low, the country in which the goods are dumped makes the decision. In other words, if Canada believes the goods coming in here—our customs department decides there is dumping. That department goes ahead and imposes dumping duties. Then, there could be a complaint. It may be complained that we are applying dumping duties when there is no dumping. We say, “No, we are not; we can prove there is dumping”. First of all, we consult amongst ourselves to see whether we can agree. If we cannot agree, and if the United States were involved for instance, the United States could go to the organization and say, Canada is applying dumping duties which are not in accord with the provisions. Then, we would have to go and make out our case.

By Mr. Breithaupt:

Q. How could you prove there is dumping, if the effective machinery is not available? During the war, regulations were changed. Is there any effective machinery now available to check on whether or not there is dumping?—

A. The usual machinery is worked through the Canadian Customs Department. I am not sure whether or not they are doing it just now. I do not think they are doing it now. They would have methods for getting information about the prevailing prices in the other country. Supposing boots and shoes were involved. Suppose our suspicions are aroused that American boots and shoes are being dumped into Canada. The first thing the customs department has to find out is the prevailing price for those boots and shoes in the United States. They could either do it by direct access to the information, or they could send people down there, agents or officers, to find out. In some cases, they do that.

Q. That is what I want to get at. Are those officers now functioning, do you know?—A. No, I do not know. I am under the impression they are not. Do you know anything about that?

Mr. McKINNON: I do not think they are functioning again as they did in the pre-war days.

The WITNESS: During the war, we discontinued the application of dumping legislation. At that time, a lot of the machinery was terminated. Now, we

may have to re-establish those offices. I do not think they have been established yet. Dumping is not a serious matter at the moment. However, it would be in a depressed situation.

By Mr. Breithaupt:

Q. What are those regulations? Once this austerity program is loosened, it may become very serious?—A. If things slumped and a surplus developed, it could become very serious. In that case, I am sure our administration would get into the position of being able to administer this thing.

Mr. McKINNON: Our investigators would again go into the field.

By Mr. Timmins:

Q. Take, for instance, the case of potatoes. We have had many cases in the past when maritime potatoes have come up to Ontario to be shipped across to the United States. This happens during periods of scarcity. Immediately, the American inspectors have stopped the potatoes in transit across the border. There have been hundreds and hundreds of cars stopped which have gone to waste. In the meantime, the officials would be discussing and attempting to determine whether or not there was dumping. Is there any machinery for handling those cases again?—A. Well, yes, under VI—

Q. Handling them with despatch.—A. Under the provisions of this agreement, you cannot use such indirect devices to keep things out unreasonably. In other words, you can simply refuse to let your machinery operate and hold everything up; that is probably more protective than any duty could be.

Q. With a perishable article, it is pretty much of a calamity?—A. In one of the later articles, here, there is a general undertaking that you will not use your regulations in such a way as to give indirect protection. If you do, then the other countries have a legitimate cause for complaint.

By Mr. Argue:

Q. If the government here is following its stabilization program with regard, perhaps, to potatoes, it is possible, is it not, for Canada to sell potatoes in the United States at a subsidized price which is lower than the price prevailing in Canada?—A. Yes, that comes lower down in this article. There are two subjects covered in this article, anti-dumping and countervailing duties.

By Mr. Low:

Q. Would you explain the difference?—A. Dumping is, as I explained a few minutes ago, where the article is sold at export at a price which is lower than the price charged at home. Then, there is another situation which arises—

By Mr. Marquis:

Q. If you will allow me, Mr. Deutsch, may I follow up this question asked by Mr. Timmins? If a pair of shoes were sold at \$10 in the United States and sold at \$12 here—A. At a higher price here?

Q. Yes, but that price would be the regular price. Without any consideration of the changing conditions or terms of sale, etcetera, how could we protect our own market under this article?—A. That would not apply; this article would not apply. This is the reverse of dumping.

Q. The American shoes would come in freely on our market and compete with Canadian shoes?—A. Well, you say they charged \$10?

Q. They charged \$12 here and \$10 in the United States. I presume those shoes would come in and compete with Canadian shoes.—A. Yes, if our people want to pay \$12 for American shoes that were only worth \$10, there is nothing in this article which will prevent it.

Q. Suppose they are sold at the same price as the Canadian article?—A. If they sell at \$10—

Q. If they sell their shoes at \$10 and the Canadian shoes are sold at \$12, what would be the result?—A. I did not get your point. In other words, the Canadian made shoes sell for \$12 and the American made shoes, the same shoes—

Q. Yes, the same shoes. The same shoes and the same conditions?—A. The same conditions of sale, and those shoes sell for \$10. Well, if they also sold for \$10 in the United States, there is no dumping. The only thing which comes in between is the duty or tariff.

Q. We cannot raise the tariff?—A. There is a tariff now or $27\frac{1}{2}$ per cent. There would have to be $27\frac{1}{2}$ per cent difference; in other words, \$2.75.

Q. So, my comparison is not any good. The shoes should be \$8 in the United States?—A. If they are only costing \$8.

Q. If the shoes are made at \$8 a pair in the United States and the regular price was \$12, it will not be dumping if they sell those particular shoes at the regular price in the Canadian market?—A. There won't be dumping. The shoes will come in.

Q. This would create a great deal of competition for our Canadian manufacturers?—A. Quite right, but that is up to ourselves. What you are saying is we have bound the duty at too low a rate. If that is the case, that is a matter of the rate at which you bound your duty.

By Mr. Breithaupt:

Q. The real test is what they are selling those shoes for in the United States. If they sell in Canada at \$6 and in the United States at \$8, that is dumping?—A. Yes. We have a remedy against it.

The VICE-CHAIRMAN: Mr. Low asked a question.

The WITNESS: Yes, Mr. Low asked a question and I should like to answer it.

In the other situation, Mr. Low, where a commodity is sold say at \$10 in the United States but for export purposes the United States government says if you export that commodity we will pay you a subsidy of \$2, this will enable that commodity to be sold abroad at \$8. In other words, the price in the United States is \$10, and the government says, "We want to promote the export of that commodity; therefore we will pay a subsidy of \$2 to enable you to sell it at \$8." There is subsidization there, not dumping in the usual sense. This clause says that you can offset that subsidy by means of a countervailing duty. We would be entitled in that case to put on a duty of \$2, regardless of the tariff we had bound, or anything else, to offset the subsidy.

Mr. McKINNON: And in addition to the tariff.

The WITNESS: In addition to the tariff.

By Mr. Low:

Q. There is one other point. Do you feel that this article amply protects Canada against the possibility of dumping, let us say, from great United States industries which in normal times, having built up some surpluses, having paid their overhead costs in the United States with the product they put on their domestic market, are wanting to send great quantities into Canada, and they can send them in perhaps cheaper than we can make them. Are we amply protected?—A. We are amply protected as far as dumping is concerned.

Q. It may not be called dumping.—A. And subsidy. The other question you raise is suppose there is no dumping. In other words, dumping is simply a matter of where they sell cheaper abroad than they sell at home. Suppose they do not do that and they sell at an equal price, but nevertheless they sell at a

price which our producers regard as very cheap. Then we enter into another realm and it is not dumping. That gets us into the general question of international competition. Whether or not we are amply protected depends upon the rate of duty you have fixed.

Q. Have fixed.—A. Yes, and that is a matter in our own hands, not once you have fixed it, but in the fixing of it you can decide what rate you will bind it at.

Q. We have pretty well bound our rates?—A. As Mr. McKinnon has explained we bound some 1,000 rates.

By Mr. Marquis:

Q. You cannot increase them?—A. You cannot increase what you have bound. Once you have bound it then you are left with that, but there is one other escape clause here. That is this, that in extreme cases where, as a result of what you did at Geneva, imports may come in in enormous quantities so as to cause serious damage to your domestic producers there is provision here whereby you may withdraw that concession. That only applies to extreme cases.

By Mr. Jaenicke:

Q. On a primary commodity, it says here.—A. You are not referring to the same thing I am. It comes later on. In extreme cases, where your domestic industry is seriously damaged, there is provision to withdraw the concession.

By Mr. Breithaupt:

Q. Who is to decide whether it is an extreme case?—A. You decided that yourself.

Q. The minister?—A. The government.

Mr. Low: A comparable industry would likely raise the question.

By Mr. Timmins:

Q. Subject to final decision by the organization?—A. Not even that in this sense, that you make the decision. Other countries may complain. Let us suppose for the sake of argument that other countries establish their complaint that you acted unreasonably. Even in that case you can still go ahead and withdraw the concession, but in that case other countries may withdraw some of theirs.

Mr. Low: That is the point.

By Mr. Breithaupt:

Q. It opens the door for others?—A. Yes.

By Mr. Timmins:

Q. Mr. Breithaupt, Mr. Marquis and Mr. Low, seem to have brought this thing to a crux in respect to these treaties. It occurs to me like this. The United States can manufacture by mass production a good deal cheaper than we can in Canada.—A. Not in every case.

Q. Let us assume they can.

Mr. Low: In many cases.

By Mr. Timmins:

Q. And Australia says, "We have got a good deal with the United States; we are going to be able to send our goods into the United States cheaper than we ever could before." Canada says, "We are going to have more business; we are going to send more goods into the United States." England says—and the members of parliament have been repeating this—"We are going to send

more goods to the United States." The United States are going to have to sell more goods outside of their own country than they sold before, and they are going to be selling in the nearest market, here in Canada. Are we not going to meet with the situation mentioned by Mr. Marquis where that \$8 pair of shoes is going to be sold in Canada for \$8 when as a matter of fact we can only manufacture them in Canada and sell them for \$10. Are we not going to be flooded?

Mr. MARQUIS: Make it \$12.

The WITNESS: That opens up a very general point. Just because everybody else sells more to the United States does not mean that the United States must continue to sell equally more to other countries, because one of the great troubles of the present day has been the adverse balance of trade with the United States. If this world is going to get out of the difficulties which it is in at the present time it has got to end up by the world as a whole selling more to the United States than they did before.

By Mr. Timmins:

Q. Then the United States has got to live more within itself.—A. No. Even in the case of the United States itself it cannot go on indefinitely passing Marshall plans and E.R.P.'s.

By Mr. Low:

Q. They have got to learn to distribute more to their own people?—A. She has got to take more goods from the rest of the world.

Q. That is right.—A. And quite frankly the United States is sponsoring this program had as one of its purposes the achievement of a better balance in this connection. They came along and were prepared to make tariff cuts in the United States. This is quite different to what they did after the last war. After the last war they came along and raised their tariffs. They have now come along and shown leadership in promoting reduced tariffs.

By Mr. Black:

Q. Still there is no permanency to that. In some cases they are being remonstrated with. I see that the lobster men in Maine are protesting about allowing our lobsters to enter there. They want their production protected?—A. Certainly.

Q. I saw a statement the other day where a big producer of copper was demanding that they be protected, not so much for today, but for the short term in the future.—A. Yes, sir, I was not trying—

Q. I suppose that applies to individual concerns all over the United States.—A. I was not trying to give the impression that the protectionist has died in the United States, or that every interest in the United States has suddenly ceased to want tariffs. That is not the case. There are many people still who argue in favour of high tariffs.

By Mr. Low:

Q. There are hundreds of pressure groups?—A. There are many pressure groups, but in spite of that they have gone ahead and have put this into effect. You must remember also that in the last 14 years the Hull trade agreement program has received a majority in Congress every time it came up, in spite of pressure groups. It is as a result of that they have gone ahead with this program. I am not saying it is necessarily permanent. I do not know what is going to happen in the future.

By Mr. Marquis:

Q. There is another escape door and perhaps a more valuable one. It is that it may be revised every three years.—A. That is right. That applies to everybody. Nobody was prepared to tie their hands indefinitely, no country. As to how permanent this is I cannot say, but one of the things that have to be accomplished is to get a better balance between the United States and the rest of the world, and that means that the rest of the world has got to sell more to the United States.

By Mr. Argue:

Q. Can you see any tangible benefits from this agreement so far?—A. Oh yes, certainly.

Q. What are they? Has it corrected to some extent the adverse balance of payments?—A. At the moment, of course, the balance of payment situation the world over is dominated by the results of the war, lack of production, lack of materials, and the scarcity of goods, and so on. As far as Europe is concerned at the present time the real problem is not the United States tariff. The real problem is the lack of production and the fact that production has not been restored to the pre-war situation. That is the dominating factor at the moment, and until that situation is corrected we will not really be able to see the full effect of these agreements because no matter what the tariff is if you have nothing to ship it does not help you.

Q. That is very true. That is why I was asking if, in your opinion, this had been of any considerable benefit so far.—A. So far as we are concerned we have had very definite benefits, and others who were able to ship things have had benefits, but unfortunately for Europe as a whole they have not had the goods to ship. That is the real position.

By Mr. Low:

Q. Take the case of a new industry we want to establish in Canada. Under this agreement just how are we to protect that infant industry against competitive—A. Imports?

Q. Yes, competitive imports.—A. In the first place if we have not bound the duty we can put the duty where we like, and presumably if there was some industry we have at the back of our minds which we want to develop say within the next three years we would not have bound the item. We only bound a certain proportion of our items; we did not bind them all.

Q. In the negotiation of this whole thing you people who were the principals in the whole business had to apply a lot of vision; you had to be looking ahead.—A. Yes, we had to be governed by the particular instructions of the government as to what things we could bind and not bind. Naturally we kept in mind, of course, that this thing only runs for three years, and we are obviously not going to develop every conceivable new industry in the next three years. When the three years are up we can reconsider the situation and say "Well now, we are about ready to move in this direction". We will take that into account when the next negotiations come up.

By Mr. Breithaupt:

Q. Is there not a case in point in connection with power lawnmowers? I saw a few days ago that they are now of a class and kind made in Canada, and there is a certain protection by way of a dump duty or actual protection in the tariff?—A. I do not know the exact tariff situation on power lawnmowers.

Q. That more or less answers Mr. Low's question.—A. We have many items in our tariff also which have this clause, "of a class or kind not made in Canada", and they come in at a certain duty if they are not made in Canada,

but if they are made in Canada they come in at a higher rate. If an industry is established in the meantime the duty jumps to the other situation. There are many cases like that throughout our tariff.

The VICE-CHAIRMAN: Are we not quite some distance from the anti-dumping and countervailing duties?

Mr. BREITHAUP: This is a very important article.

The VICE-CHAIRMAN: I understand, but I think it will come up later. Are there any questions on article VII, Valuation for Customs Purposes?

By Mr. Argue:

Q. Before you go on to article VII I should like to get a part of article VI cleared up as to what a country can do to stabilize its primary products? I have read this, and I would say that Canada can maintain a stated price for wheat within the terms of this particular provision. What I am wondering is can Canada stabilize another product that she has not stabilized in the past and still comply with this?—A. You are referring to number VI here?

Q. Yes.—A. That subsection takes care of the problem that arises when a country is operating a stabilization scheme say for an agricultural product. Suppose the country has a scheme whereby it maintains a fixed price at home, or to the farmer, a fixed price to the domestic producer and domestic consumer, but it sells abroad on a fluctuating price depending upon the world market. Sometimes the world market price is below the domestic price and sometimes it is above the domestic price. In a case of that sort when the world market is below the domestic price other countries which are the importers of that commodity may say, "You are dumping and we are going to apply a dumping duty." That would be very embarrassing to any stabilization scheme if dumping duties were applied at that time. This clause says that where such a stabilization scheme is operating so that the price sometimes is higher and sometimes lower than the domestic price, and where the scheme is so operated as not to cause undue damage to other countries, in that case dumping duties shall not be applied.

Q. I can understand that perfectly, but could you bring a new product under a stabilization program? It would not comply with this, as I see it, because it would not have been sold at an export price higher than the comparable price charged in the country exporting that commodity.—A. Suppose we brought a stabilization scheme into effect now. The chances are at the present time if we had a real stabilization scheme we would be selling abroad at a higher price than we are selling at home, and you would thereby establish the condition that is required here. Therefore, two or three years from now when you have to sell at a price lower you will have met the condition.

Q. Let us take barley, for example. I do not think we sold barley abroad at a higher price than we sold it at home in the last few years because we did not sell it at all. We did not export barley. Could the government have a stabilization program for barley and still comply with the agreement?—A. My own opinion would be it could have, yes, because in fact we have in the last few years sold barley abroad for a higher price than we have sold it at home.

Q. I do not think we have sold it abroad at all.—A. Yes, we did. We have given permits for the sale of barley.

Q. But we could not bring a product under this that we had not sold abroad in the past at a higher price?—A. Not strictly speaking. Suppose we take a commodity as from today and we say, "We are going to put a stabilization scheme in here." I mean a real stabilization scheme, not one which stabilizes at the highest price ever received. That is not a stabilization scheme. I mean a real stabilization scheme which tends to even out movements which go like this. If we started today with prices as they are at the present time the general

likelihood would be that we would sell abroad at a somewhat higher price than we are selling at home. If we did that for some period and then say two or three years from now we had to sell abroad at prices lower than we sell at home then we will have met the condition.

By Mr. Jaenicke:

Q. They could not apply dumping duties on us.—A. In that case, that is right.

Q. It would only apply as far as we are concerned if we sell lower on the world market than we sell at home, other countries applying dumping duties on us or countervailing duties.—A. Yes.

Q. There is the case of New Zealand butter, the situation in 1935 when they paid so much a pound at the seaboard. They did not say that they paid so much domestically. The domestic price was regulated by what they paid on exports, and they might have sold it for less than that, as they apparently did.—A. If they had been operating a real stabilization scheme which has resulted that at times they have sold at a higher price abroad than they have sold at home, and they have reached the point where they are now selling at a point below the market price at home that is a real stabilization scheme and in that case you could not apply a dumping duty.

By Mr. Argue:

Q. Suppose a given country has not established a stabilization scheme until there is a sharp cut generally in prices and then it tries to stabilize prices.—A. At that point it could run into this difficulty.

Q. Therefore if our government wants to be sure they can have a stabilization program the time to do it is when world prices are reasonably high so that the prevailing price in Canada under the stabilization program would be less than the export price?—A. That is the general tenor of this thing. Of course, this does not say you cannot establish a stabilization scheme. This clause does not say that. It only says that where you start a stabilization scheme by selling below the price other countries may apply the dump, but it does not say you cannot establish the scheme. It simply says you may run into certain risks. That is all.

By Mr. Jackman:

Q. There is no converse of the countervailing duties? For instance, suppose we had an effective monopoly of nickel in this country, and we had a nickel price which was quite low and which was of great benefit to export industries having a substantial nickel content. There is nothing to prevent us from doing that under the Geneva agreement, is there?—A. No, there is nothing to prevent us from doing that. Others may complain. We will say, "Well, it is not contrary to any clause here".

Q. Take newsprint, for instance, which as you know is in great demand just now. I think the internal price is a few dollars a ton less than the export price.—A. Right.

Q. We can continue action like that all we wish?—A. Certainly.

Q. Under section 5 of this clause I was thinking of the case of bananas. For example, suppose we had a balance of trade with Jamaica which was too favourable to Canada, and we wished to import more from Jamaica. Is there anything to stop a country like Guatemala, for instance, where bananas are very cheap, exporting them to Canada at what we would consider to be a dump rate? Reference to the internal price in a country like that, Guatemala, has no value in comparison with the price in Canada. Therefore there is no protection there under the section of the Act.—A. We could act in a case like that if we wanted to.

Q. We would have to get permission, would we not?—A. It says, "May waive". They may waive. We would have to ask permission for it. That is right. Suppose Guatemala was dumping bananas into Canada and we did not want Guatemala bananas, we wanted Jamaican bananas. If we wanted to we could put a dump against Guatemala, but with permission.

Q. On consultation?—A. Yes.

Q. You cannot prove your case at all because the reference to the internal price means nothing.—A. It may be difficult to prove the case. That is quite true.

The VICE-CHAIRMAN: Shall we pass on to article VII, Valuation for Customs Purposes?

The WITNESS: I might make one further point to make the clause absolutely clear. There is one further limitation here on the application of the dump and that is you can only apply a dump duty where the dump is such as to cause or threaten material injury to an established domestic industry. In other words, if you have no industry at all you are not supposed to apply the dump.

By Mr. Jackman:

Q. How does that affect bananas?—A. That is where it arises. In the case of bananas we have no industry and therefore we could not apply a dump duty, but going on down in clause 5 it says, however, that in certain cases the contracting parties may waive that obligation and allow you to put a dump on where you are trying to protect a third party. There is provision for doing that even where you have not the industry in your own country.

By Mr. Low:

Q. Just what benefits does Canada get out of this particular section?—A. Well, it does not allow others to apply all sorts of arbitrary dumping duties against our exports. We have a very great interest in this thing.

Q. At the same time it leaves up open to some other evils?—A. Well, it has tied your hands to some extent, that is true, because you cannot tie anybody else's hands without tying your own to some extent. You cannot make an agreement otherwise. You have got to do something which is mutually advantageous. This clause says that other countries may not give arbitrary protection to their own industries as against Canadian imports by means of the dumping action. In many cases the dumping provisions have been abused. In other words, people have applied dump duties against imports on quite a fictitious basis, an arbitrary basis, for the purpose of keeping out the imports and protecting their own industries. That has affected our exports obviously. Our export interests have come across these arbitrary actions, and our goods were kept out, not because there was really any dumping but because they did not want our exports. This says they cannot apply such dumping legislation except in genuine cases of dumping. Naturally if we want to get that benefit from other countries we must give equal assurance to them. That is all we have done.

Q. The only thing I am concerned about is this, that in meeting a competitor in any field, whether it is boxing or in trading, if our desire is to cut them down to our size and in trying to do it we cut ourselves down proportionately we have not gained anything.—A. No, but I think in this case we are not a midget by any means. We are one of the world's three greatest trading nations. We have as much interest in this as almost anybody you can name. In this case we are one of the giants and not the midget.

Q. Not by comparison with the United States.—A. We must consider both sides of the picture—

Q. We are among the midjets.—A. We are among the three biggest trading nations in the world at the present time. In normal times we are among the first four or five.

Q. That is not very much comfort when we are up against the giant beside us.—A. Of course, you must remember if you give the giant absolute freedom then equally you are up against a very difficult situation. It is true we are smaller relatively than the United States, but our dependence on exports is very much greater than the American dependence on exports. If other countries have absolute freedom to act arbitrarily at any time in response to local pressure groups and what have you, to do what they want with our exports at any moment, I would say we are in a very vulnerable position.

Q. The net result for Canada could be good only in so far as this agreement, and particularly this section we are dealing with now, does result in opening up more markets for us in the United States. Is that right?—A. The United States and elsewhere.

Q. I am speaking particularly now with regard to the United States because we are pretty well bound by the adverse trade balance between us at the present time. You have gone over that whole thing in detail. You were there on the ground. Can you say that the net result is going to be better for Canada in the United States market?—A. I would say yes. Otherwise we would never have agreed to this thing. Our opinion is that on the whole this is advantageous to us, yes.

By Mr. Breithaupt:

Q. You have seen the trend in the last few weeks. They have interpreted the 8 per cent sales tax in such a way it is not now figured for duty purposes.—A. That is right.

Q. That is a most favourable trend.

By Mr. Timmins:

Q. Let us follow that one step further. Is there any reason why they should not delete that 25 per cent excise tax in the United States, too?—A. We are hoping that will come.

Q. That is the trend?—A. That is the trend.

The VICE-CHAIRMAN: Article VII, Valuation for Customs Purposes.

By Mr. Fraser:

Q. Section 3 of article VII deals with sales tax, does it not?—A. That is right.

Q. That is exactly what that is.—A. That is right.

By Mr. Jackman:

Q. Reverting for a moment, there is nothing in this section which prevents Canada from protecting the vegetable growers at the beginning of the growing season in Canada from surpluses, and we might say dump production in the adjacent states?—A. No, but if you look at the tariff rates in the schedule you will see there is a seasonable duty, which applies during certain seasons, the seasons being our own seasons of production. Mr. Kemp can explain that if you wish to question him particularly.

Q. As long as you are satisfied.—A. In the case of fruits and vegetables during our season of production there is a specific right for us to impose special seasonal duties against American fruits and vegetables.

By Mr. Fraser:

Q. They are more favourable under this than they were a couple of years ago?—A. Well, the system was entirely different. There have been some adjustments, but I think Mr. McKinnon feels—

Q. On the whole this is a bit better.—A. This is better as far as administration is concerned.

Q. A better chance to restrict.—A. Well, it can be applied effectively as we did in the past, and it is better from an administrative point of view.

The VICE-CHAIRMAN: Are there any questions on article VII, gentlemen?

By Mr. Timmins:

Q. I should like to ask a question with respect to article VII, section 4 (c).

The contracting parties, in agreement with the International Monetary Fund, shall formulate rules governing the conversion by contracting parties of any foreign currency in respect of which multiple rates of exchange are maintained consistently with the articles of agreement of the International Monetary Fund.

Would Mr. Deutsch explain to us just how the agreement and the International Monetary Fund tie up together?—A. Well, this agreement you will see later on, states that the countries which are members of this Geneva club should also be members of the International Monetary Fund.

Q. When you say "should" you mean must?—A. Not quite must. I was going on to explain that it says first, they should be. If they are not, then these members have to make a special exchange agreement with the Geneva club. That exchange agreement will cover, it is understood, much of the same ground as is covered by the International Monetary Fund. So, for all practical purposes, the members of this club are also members of the International Monetary Fund because, if they are not, they have to make special agreements which, in effect contain most of the obligations that the International Monetary Fund imposes.

By Mr. Fraser:

Q. That is in order to check on the exchange rate and see it is not fluctuated and used as a customs barrier?—A. That is right, because if they had complete freedom of action with respect to exchange rates they could nullify the whole thing.

By Mr. Timmins:

Q. Did France devalue the franc before or after Geneva?—A. After Geneva.

Q. Are there certain adjustments or settlements by France to make the concession at Geneva coincide with the International Monetary Fund, in order that she may do business with the other countries that are bound?—A. No, the devaluation of the franc was a complicated thing. They devalued it as a whole, but they left one rate controlled and another rate free. In fact, you have a multiple exchange rate.

By Mr. Marquis:

Q. Mr. Deutsch, France came under an exception in this agreement, did she not?—A. No, nothing in this agreement applied to the French action. It pertained only to the monetary fund agreement.

By Mr. Jackman:

Q. It was a flagrant violation?—A. Whatever happened there, it has to do with the monetary fund and has nothing to do with this agreement.

By Mr. Timmins:

Q. Will there not have to be an adjustment made by France, having regard to this clause?—A. I was going to come to that. Really, as a result of the French action, a multiple exchange rate has been established. Under this clause it says, where there are multiple exchange rates the countries will consult with the monetary fund as to the rules that will apply in valuing imports from that country. There is not any one rate you can take. They have several rates.

What you are supposed to do under those circumstances is set out here. You are to consult with the International Monetary Fund before you apply the rates. It goes on to say you may, yourself, make such decisions as you see fit until the rules are agreed. In other words, our hands are perfectly free. We can do business on the terms which we think are perfectly satisfactory to ourselves.

Q. Until such time as this is established?—A. That is correct.

The VICE-CHAIRMAN: Are there any questions on Article VII?

By Mr. Jaenicke:

Q. Apart from this last thing we discussed, what would you say are the differences between this article VII and the rules of law which have been applicable in Canada so far?—A. Article VII—I think, in actual practice, Mr. Jaenicke, what we have been doing recently comes very largely within the provisions of this clause.

Q. Recently, how recently?—A. I mean, since the war or shortly before the war. Of course, what we did during the 1930's does not come within this clause.

Q. That also applies to Article VI, does it not?—A. Yes. Throughout the 1930's, we did a lot of things with respect to the administration of customs which we do not do today. I am afraid those practices of the 30's would fall very far afoul of the provisions of this clause. I am not saying this in any sort of criticism because those were different conditions. In the 1930's, other countries were doing equally things which would not be condoned in any way under this agreement. We were then in an entirely different situation.

I remember, at that time, we used the arbitrary valued method in some cases. We simply placed arbitrary values on imports then applied the duties to those values. That is not permitted under this clause. You cannot use arbitrary or fictitious values. You must use actual values, as it says. It goes on to define what actual values are.

Q. I have a case here which falls within article VII, clause (2) (b). This case came to my notice a couple of months ago and concerns absorbent cotton which was to be imported from the United States into Canada. It was not imported because the same value was applied here, which made it impossible for the cotton to be imported. It was a war assets surplus in the United States and was sold over there for the same price it was to be sold in Canada. Apparently, we still have the power to apply arbitrary values?—A. Oh yes, the powers are still there. I do not think they have been generally used. There may be the odd case where they have been used to deal with a special situation. As I understand it, our Customs Department has not used the system of arbitrary values generally.

Q. Does Mr. Kemp know about this case?

Mr. KEMP: No, I have not heard about it.

By Mr. Marquis:

Q. Reverting to the question of what France has done about currency, am I to understand France could do that under the provisional agreement but could not have done it under the final agreement?—A. No, Mr. Marquis, what France did has nothing to do with this agreement at all.

Q. In so far as the International Fund is concerned, could France do the same thing when the agreement is final?—A. That is a matter for them to settle with the International Monetary Fund. Whether or not they could do it depends on whether or not the International Monetary Fund agreed.

Q. It is dependent upon the International Monetary Fund?—A. That is right, it has nothing to do with this agreement.

By Mr. Jaenicke:

Q. Returning to clause (2) (b) again, actual value should be the price at which, in the ordinary course of trade, the merchandise is sold or offered for sale under fully competitive conditions. Supposing there is no competition in Canada?—A. How do you mean, that there is just one firm?

Q. Yes.—A. Well, that raises a series of questions. It depends on what the circumstances are. I think what was meant here was that you have a situation where a company which is exporting may control the entire trade in an article. It may control all the outlets in which the goods are sold. In other words, it controls the distributing agencies as well as the manufacture of the product. As you can see, in a case like that, all sorts of possibilities arise.

A company may bill its goods to its distributing agency in the other country at almost any price it wishes because what it loses by selling at the lower price, it will make up in distribution profit. A situation of that kind could play hob with any definition you made of value. Because the value is not established under fully competitive conditions in that case, it simply states here that where the other conditions do not exist, you may take account of that fact in assessing the value for duty.

Supposing you have a case where a company is selling to another company. That company owns the distributing agencies in the country of importation. Suppose the value of the product is \$3, just for the sake of argument. The company bills that commodity to the distributing agency in another country at \$1. It loses \$2 in that transaction. Then, the distributing agency sells at \$3 in the importing country and it make a profit of \$2. Therefore, what the company loses in billing at a less price, it makes up in distributing profit. Then, what is the value for duty in a case like that? Actually, the goods have been billed at \$1 so far as the importing concern comes into the picture. Obviously, that is not the real value and would not be the value if there were full competitive conditions. Therefore, in placing a value for duty on that article you can take account of that situation.

The customs authorities would simply say, here, "you are simply billing these goods at abnormally low prices to avoid our duty and you recoup yourself on the distributing profit. Therefore, we say this article was not sold under fully competitive conditions. We are going to bill it at \$3, regardless of the fact you billed it at \$1". That is what is meant by this phrase, "Under fully competitive conditions".

The VICE-CHAIRMAN: We come now to Article VIII, "Formalities connected with importation and exportation".

By Mr. Timmins:

Q. These three sections, 8, 9 and 10, appear to be more or less formal. I wonder if Mr. Deutsch could not give us a word or two on each one, unless some questions arise, and thus pass over them quickly?—A. 8, 9 and 10 are intended to simplify the procedures and administrative practices which are involved in the case of applying customs regulations and customs duties when goods are imported into another country.

As you know, there is a great possibility here to provide protection and put up barriers against trade simply by enforcing or trying to enforce a great mass

of very complicated regulations. It is possible, as you may well imagine, to lay down a series of regulations. In order to meet those regulations, the exporters have to go to no end of trouble and expense, with the result that the cost of exportation is greatly increased and therefore discourages people from trying to export.

It says in this clause that such regulations should not be more onerous, more complex than is necessary. In any case, they ought not to be used in a way to provide indirect protection. It also goes on to say that such regulations as you make should be published and should be available to everybody so that the exporters can see what the regulations are and can meet them beforehand.

Sometimes, countries have not published their regulations and the goods have been exported. When the goods arrived at the border the exporter found out, for the first time, certain regulations had been put in force with which he is then unable to comply. The result is the goods are not sold, the exporter winds up with a loss. If he has gone through an experience of that kind several times, he gets fed up and quits. These clauses are here to prevent these unnecessary and onerous requirements which are sometimes resorted to for purely protectionist purposes.

MR. MCKINNON: I think you might say on that point, having in mind our tremendous importance as an exporter relative to our operations that we probably suffered more than any exporting country in the world from vexatious and frivolous regulations and that type of thing, infinitely more than some of the countries which rank with us as exporters. Now, they are modified and there is a principle running through them which is greatly in our favour in that our own regulations were few and simple. Our formalities were not involved or vexatious and this comes closer to our law, as it stands now, than it probably does to the law of most of the countries who signed at Geneva. I think that is a fair comment.

THE WITNESS: You will see here these articles are fairly extensive, covering a wide range of things having to do with formalities and regulations of one sort and another.

THE VICE-CHAIRMAN: Shall we go on to article XI, then, general elimination of quantitative restrictions.

By Mr. Jackman:

Q. May I ask a question on Article IX, section (4)? I believe we had a case of fruit and apples being imported into the United States from Canada. The apples were not marked with the country of origin. Will this section eliminate such vexatious and frivolous requirements by the United States Customs authorities? Furthermore, the section says the goods must not be unreasonably delayed. A delay in connection with fruit and other perishables is extremely important. Will this section actually eliminate that or is it still dependent on the goodwill of the American authorities?—A. This is intended to eliminate it and if they do not comply with this provision, then they are breaking the agreement. We would have a remedy against them. In the case of a perishable product any delay is unreasonable and if as a result of that the product deteriorates, we would have a complaint. It depends on the circumstances, you see.

Under the general purposes of this provision, it is intended that the administrative apparatus should not operate in such a way as to cause unnecessary loss to the exporter.

Q. Is it your opinion, Mr. Deutsch, that unless there is the utmost goodwill between, say, the United States and Canada, the whole agreement really is, to a large extent, negatived?—A. I would go a long way with you there, sir. Unless the countries live up to the spirit of these undertakings we will not get

the full benefit of this thing. If there is a lot of continuous friction and an attitude of refusal to carry out the full intent of this scheme then, of course, the value of the whole business declines.

It is impossible to write in words everything that countries ought to do. You just cannot do it. You would have to write a book three feet thick. All you can do is state the principles and then hope everybody will have enough sense, in their mutual interest, to try to live up to the spirit of the thing.

It does not mean there are not going to be difficulties. There are going to be difficulties of some sort or another. There is machinery provided here for the solution and settlement of difficulties. If that machinery is over-burdened, used too frequently, it will break down.

We cannot emphasize enough that if this scheme is to work properly, all countries must actively try to live up to the spirit of it. That applies to our own actions as well as to the actions of other countries.

Q. Was there very much conversation at Geneva or Havana with regard to what might happen when countries are endeavouring to export their unemployment when times are difficult?—A. Yes, there was a lot of discussion about that, but it leads us off into another field. That is a story by itself.

By Mr. Fraser:

Q. Would Mr. Deutsch give us a little resume of the meaning of article XI?—A. Article XI is another one of the key clauses of this agreement. This article states that countries will not use quantitative restrictions either for the control of imports or for the control of exports. The only restrictions which may be imposed are duties or taxes or other charges, not quantitative restrictions.

In other words, quotas, embargoes, prohibitions and so on are ruled out. That is the general principle and now, we proceed immediately to the exceptions. The general principle is followed by a number of exceptions. A good part of the rest of this document has to do with the exceptions to this basic rule.

Now, I think all of you will agree, even if you accept the logic of the general rule, it cannot be adhered to 100 per cent. The question is whether the exceptions are too numerous or not numerous enough; that is the real question. Article XI begins immediately to list some of these exceptions. I might as well refer to them one by one. The first exception reads as follows:

Export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of food stuffs or other products, essential to the exporting contracting party.

In other words, suppose we had a crop failure or something of that sort. There is not enough food in this country. Clearly, we should have the right to keep enough food here to feed our own people. In a case of that sort, you are permitted to put on an export prohibition or restriction.

By Mr. Blackmore:

Q. So much depends on the interpretation of the word "essential". Would essential extend far enough to include goods which you need to support your industries to a certain degree of production?

Mr. TIMMINS: Pulpwood, for instance.

By Mr. Blackmore:

Q. Yes, or feed for livestock, generally, and enough coal to keep your industries running up to a certain standard.—A. Those are questions, Mr. Blackmore, of degree.

Q. That is where the trouble is.—A. Naturally, there is a considerable element of interpretation here. I think you have to have reference to the circumstances of the case. Clearly, again, it was not possible to write into the agreement all the circumstances which might possibly arise. If you did, you would have a tremendous volume. Again, all you could do was to set down the general principles and trust to the good sense of the others who have to interpret this. In the course of time, a certain amount of case law will be built up in connection with these situations.

You say, what is essential? Again, that depends on the circumstances. I would imagine, certainly, that food and feedstuffs would be essential. Suppose there was a threat of your feedstuff leaving the country and there would be very little left here for your own livestock. Clearly, that would be a case which would come within the provisions of this clause.

By Mr. Jaenicke:

Q. What about the fulfilling of the British food contracts?—A. That is another matter.

Q. Is that covered here?—A. In another part, not here.

By Mr. Blackmore:

Q. So much depends, Mr. Chairman, on what you have in mind when you use the word "essential". It works out finally, to the definition of the word "developed" which we were dealing with some time ago. What is the standard of economic development to which an economic or political unit in the world is entitled or may be desirable? If that had been more carefully defined by the committee, I should feel much more assured in connection with the whole matter. However, do not let me interrupt you.

The VICE-CHAIRMAN: Shall we deal with Article XI, section (2), clause (c)?

The WITNESS: "Import and export prohibitions or restrictions necessary to the application of standards or regulations for the classification, grading or marketing of commodities in international trade."

That is a reasonable exception. It would enable countries to impose standards on the commodities which are traded in that country. In our own case, we apply very rigid standards on grades of wheat which we export. We do not allow ungraded wheat to be exported. In order to enforce that regulation, we have to put a restriction on it. In other words we say, only certain grades or certain standards may be exported. We cannot enforce that unless we put a restriction in force stopping that wheat which does not meet those standards. The intention here is to enable countries to put in such a grading system as may be necessary.

By Mr. Timmins:

Q. The United States imposed certain standards on milk coming from Canada. The standards imposed were so strict that they killed the export of milk in the eastern parts of Ontario to the United States?—A. Yes.

Q. Now, who is going to—as I remember it, they put it on a health basis, it was a health standard. Who is going to regulate a matter such as that?—A. Well, in that particular case, it happens to be a regulation imposed by a state government. You get into the whole business again of federal and state relations.

Suppose it were a federal regulation. This clause says, "A prohibition or restriction necessary to the application of standards." Now, it may be that, sometimes, these standards are put on in such a way that they result in protection rather than improving the standards. In that case, we would argue that those regulations are not necessary and that they are really indirect devices

to provide protection. In this agreement that is not permitted. If other countries applied such regulations to our products, we would have a ground for complaint. It certainly would be our intention if we ran across a situation of that kind, to seek relief from it.

The VICE-CHAIRMAN: Would you explain Clause (c)?

The WITNESS: That is a rather lengthy one.

By Mr. Blackmore:

Q. Suppose we ask a question for a little clarification instead. In regard to the word "protection", is it a recognized thing that any state should be free to develop a degree of production on any given commodity which would make that state self-sufficient in respect of that commodity? Would that be called protection?—A. It depends on how it does it, Mr. Blackmore. There is no restriction, in this agreement, against any country wanting to make itself self-sufficient in anything.

Q. Could any degree of restriction be imposed in order to bring the internal production up to that level; is that not protection?—A. I am not concerned with what you call it. The question is what are your rights under the agreement. You may protect your own industry to any degree you like, provided you do it by certain methods. You are not allowed to use quantitative restrictions in doing it. You may use any duty you like, any tariff you like, provided you did not bind yourself on that tariff.

If you leave that item unbound, you may protect that interest by means of that tariff to any degree you like.

Q. Where the difficulty is, if you raise the tariff high enough on any kind of item to keep out the goods from the most favourable producer, you have to keep the goods from every other producer out, so you cannot have that particular item coming in at all?—A. That is up to the country concerned.

Mr. ARSENAULT: It is now six o'clock and I move we adjourn.

The VICE-CHAIRMAN: The committee stands adjourned.

The committee adjourned.

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SESSION 1947-48

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HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 10

Subject-matter of the General Agreement on Tariffs and Trade,
including the Protocol of Provisional Application thereof,
together with the Complementary Agreement of
October 30, 1947, between Canada and the
United States of America.

THURSDAY, MAY 20, 1948

FRIDAY, MAY 21, 1948

THURSDAY, MAY 27, 1948

WITNESS:

Mr. J. J. Deutsch, Director of Economic Relations Division, Department
of Finance.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1948



MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, ROOM 430,

THURSDAY, May 20, 1948.

The Standing Committee on Banking and Commerce met this day at 4.00 o'clock p.m. Mr. G.-Edouard Rinfret, Vice-Chairman, presided.

Members present: Messieurs Arsenault, Belzile, Blackmore, Dionne (*Beauce*), Gour (*Russell*), Hazen, Isnor, Jackman, Jaenicke, MacNaught, Marquis, Quelch, Rinfret, Ross (*Souris*), Smith (*York North*), Timmins.

In attendance: Mr. H. B. McKinnon, Chairman of the Tariff Board, Mr. J. J. Deutsch, Director of the Economic Relations Division, Department of Finance; Mr. Hubert R. Kemp, Director of Commercial Relations Division, Mr. A. L. Neale, Mr. G. C. Cowper, Mr. Louis Couillard, Commercial Relations and Foreign Tariffs, Department of Trade and Commerce.

The Committee resumed the adjourned study of the Final Act of the Second Session of the Preparatory Committee of the United Nations Conference on Trade and Employment, held at Geneva from April 10 to October 30, 1947, and Related Documents. (Treaty Series, 1947, No. 27).

Mr. J. J. Deutsch was called and examined thereon.

On motion of Mr. Timmins, the following documents were ordered printed as appendices to Minutes of Proceedings and Evidence, No. 10, *viz:*—

APPENDIX "A"—List of Tariff Items and sub-items in respect of which the margin between the British Preferential rate and the Most-Favoured-Nation rate has been eliminated as a result of the Tariff concessions made at Geneva, in 1947.

APPENDIX "B"—GENERAL AGREEMENT ON TARIFFS AND TRADE.—Concessions received by Canada from non-Empire countries on: Axe heads, Asbestos, Laundry machinery, Automobile parts, Aluminum products, Electrical appliances.

At 6.00 o'clock p.m., the Committee adjourned to meet again at 8.30 o'clock p.m.

EVENING SITTING

The Committee met at 8.30 o'clock p.m. Mr. G.-Edouard Rinfret, Vice-Chairman, presided.

Members present: Messieurs Argue, Arsenault, Belzile, Blackmore, Dechene, Dionne (*Beauce*), Fournier (*Maisonneuve-Rosemont*), Isnor, Jackman, Jaenicke, Jutras, MacNaught, Marquis, Quelch, Rinfret, Timmins.

In attendance: The same officials as are listed for the afternoon sitting.

The Committee continued consideration of the Final Act of Geneva.

Mr. J. J. Deutsch continued his deposition. During the witness's interrogation Mr. H. B. McKinnon contributed some information.

At 10.30 o'clock p.m., the Committee adjourned to meet again at 10.30 o'clock a.m., Friday, May 21, 1948.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, ROOM 430,
FRIDAY, May 21, 1948.

The Committee met at 10.30 o'clock a.m. Mr. G.-Edouard Rinfret, Vice-Chairman, presided.

Members present: Messieurs Argue, Belzile, Benidickson, Blackmore, Dechene, Dionne (*Beauce*), Fleming, Gour (*Russell*), Hackett, Hazen, Jaenicke, Jutras, MacNaught, Quelch, Rinfret, Ross (*Souris*).

In attendance: The same officials as are named for the meetings held the previous day.

The Committee continued and completed its study of the Final Act of Geneva.

Mr. J. J. Deutsch was called and examined thereon.

At the completion of the study of the said Final Act, Mr. Blackmore moved that the Committee examine Mr. Deutsch with regard to the European Recovery Plan.

The Vice-Chairman ruled the said motion of Mr. Blackmore out of order on the ground that such matter was not within the scope of the Order of Reference.

The Vice-Chairman, Mr. Rinfret, voiced the appreciation of the Committee for the valuable and enlightening information given by the officials of the various departments, namely, Messieurs McKinnon, Kemp, Callaghan, Richards, Couillard, Neale and Cowper.

Mr. J. J. Deutsch, on behalf of all the officials who had attended the sittings, expressed thanks for the consideration extended to them by every member of the Committee.

All officials present were excused.

The Committee then continued its deliberations in camera. Future plans and a Report to the House, respecting the Geneva Tariffs and Trade Agreement, were discussed. After some debate thereon, on motion of Mr. MacNaught, the matter was referred to the Steering Committee for consideration and report.

At 12.10 o'clock p.m. the Committee adjourned to meet again at 10.30 o'clock a.m. Thursday, May 27th, 1948.

THE SENATE, ROOM 262,
THURSDAY, May 27, 1948.

The Standing Committee on Banking and Commerce met this day at 10.30 o'clock a.m. The Vice-Chairman, Mr. G.-Edouard Rinfret, presided.

Members present: Messieurs Blackmore, Dechene, Dionne (*Beauce*), Fleming, Harris (*Danforth*), Hazen, Isnor, Jackman, Jaenicke, MacNaught, Marquis, Mayhew, Michaud, Nixon, Probe, Rinfret, Ross (*Souris*) Timmins.

The Committee reverted for a while to the Order of Reference of Friday, March 12, 1948, namely: That the subject-matter of the General Agreement on Tariffs and Trade, including the Protocol of Provisional Application thereof, together with the complementary agreement of October 30, 1947, between Canada and the United States of America, be referred to the said Committee.

Mr. Harris (*Danforth*) proposed that invitations to make representations orally, or in the form of briefs, in connection with the Geneva Tariffs and Trade Agreement, be extended to the following parties, namely:—

The Canadian Exporters' Association, Toronto, Ontario.

The Furniture Manufacturers' Association, Toronto, Ontario;

The Jones Manufacturing Company, Limited, Stratford, Ontario.

Mr. Timmins proposed further that Mr. Donald Gordon, of The Bank of Canada, be called to give evidence on the same matter.

After some discussion, both motions of Mr. Harris and Mr. Timmins were resolved in the affirmative on the following division: Yeas, 10; Nays, 0.

It was agreed that the Committee would hear a representative of the Jones Manufacturing Company, Limited, and Mr. Donald Gordon, of The Bank of Canada, on Tuesday, June 1st, 1948. The Clerk of the Committee was thereupon instructed to communicate with the parties concerned.

It was also agreed that invitations be extended, through the Clerk of the Committee, to the Canadian Exporters' Association and the Furniture Manufacturers' Association to send representatives to appear before the Committee, if they so wish, on Thursday, June 3, 1948, or to present their views on the matter in the form of briefs.

The Vice-Chairman informed the Committee that no reply had yet been received from the Canadian Importers and Traders Association, Inc., to the Committee's invitation to present a brief. He also read a communication from the Board of Trade of the city of Toronto informing the Committee that the Board had no representations which it wished to make to the Committee in the matter.

The Committee then proceeded with the study of Bill No. 220 (Letter F. of the Senate), "An Act to amend the Loan Companies Act". (See Minutes of Proceedings and Evidence No. 11).

At 12.15 o'clock p.m. the Committee adjourned to meet again at 10.30 o'clock a.m. Tuesday, June 1, 1948.

ANTOINE CHASSÉ,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

May 20, 1948.

The Standing Committee on Banking and Commerce met this day at 4 p.m. The Vice-Chairman, Mr. E. Rinfret, presided.

The VICE-CHAIRMAN: When we adjourned last time I think we were just about to discuss article XI, subsection 2, clause (c), import restrictions on any agricultural or fisheries product.

J. J. Deutsch, Director of Economic Relations Division, Department of Finance, recalled.

By the Vice-Chairman:

Q. Mr. Deutsch, will you explain what this means?—A. This subsection is one of the permanent exceptions to the basic rule prohibiting the use of quantitative restrictions. The purpose of this exception is to make workable programs for the control of agricultural production in times of excessively low prices or surplus production.

As you know some countries have in the past instituted programs designed to raise prices in periods of slump for agricultural products, and they have done it by putting a limit on production and putting a floor under the price, by one device or the other.

The most prominent example of that is what was done in the United States during the 1930's. Similar programs have been in force in Australia and in some other countries. These programs cannot really be worked successfully if there is unlimited freedom for importation, because if the domestic production is in some way restricted and the price is raised above world levels inside the country then obviously imports will flow in in tremendous volume from outside to take advantage of these higher prices inside the country.

In order to prevent the jeopardy of the domestic program by such imports some form of control has to be placed upon imports. This exception here enables the imposition of some controls on the imports in cases where programs are in effect. The condition that has to be met before such controls may be imposed on imports are that the program must operate to restrict production. It must operate in some way to limit production, or there is a second part to this paragraph, the program must have as a part of its scheme a policy for the distribution of the surplus at low prices or free of charge to non-commercial markets. In other words, it is something of the nature of the blue stamp plan that was in effect in the United States during the 1930's where food was distributed, you remember, to families on relief or low income families at prices very much below the market. That device was used to take the surpluses off the market and have them consumed by people who could not otherwise afford to buy them.

If the program has a scheme of that sort in operation then the conditions necessary for the control of the imports will be met.

There are limitations upon the degree to which imports may be controlled. You cannot use the fact that there is production control as an excuse for cutting out imports altogether. If that were so, of course, it might be very harmful to countries which are interested in export. So the limitation is placed upon this exception that imports may not be restricted beyond what they would be if such domestic production controls were not in effect. That, as you might readily realize, is not an easy amount to determine, but in any case, whatever control is put on, the control on imports must not restrict imports beyond the proportion to domestic production which prevailed in a previous period. So that imports will retain a proportionate part of their market even though they are controlled. Very briefly that is what this exception states, and very briefly also the purposes of the exception.

By Mr. Jaenicke:

Q. Article XI is principally for the protection of the United States?—
A. Yes, I think that is right, although there are some other countries that are also interested in it.

Q. How does it affect their restrictions now with regard to agricultural products, beef and cattle?—A. At the moment they have no program.

Q. They widened it, did they not?—A. Our quota into the United States?

Q. Yes.—A. Yes. Our quota for cattle into the United States was widened from 225,000 to 400,000.

Q. We cannot export to them any more than 400,000?—A. We may, but then we have to pay a somewhat higher duty.

Q. Have they got a different quota for each country?—A. No, the 400,000 is the quota for all countries. When countries start shipping they are supposed to allocate that quota among the different suppliers. Normally only countries—

Q. Is there a note in here some place?—A. Yes, we will come to that later. They are supposed to allocate that total quota among the various suppliers. In the case of cattle there are only two suppliers to the United States of any consequence, Canada and Mexico.

Q. And the Argentine?—A. No, they do not ship live cattle. This applies to live cattle.

Q. What about grain? Do they not have a restriction on grain also?—
A. Only on wheat, not on feed grains.

Q. How much is that?—A. In wheat before Geneva it was 800,000 bushels, which was a very small figure.

Q. As far as we are concerned?—A. As far as we are concerned.

By Mr. Marquis:

Q. As to cattle is it not one-fourth of the total allocation which is allowed to Canada?—A. No. The figure has to be allocated between Canada and Mexico. Our proportion is a very high one of the 400,000.

Q. I think we cannot go beyond 100,000 or 150,000 owing to the quantity we may export from Canada.—A. You mean for the whole year?

Q. Yes.—A. Oh no, it is much more than that. I forget what the 1939 figures were. They were very high proportionately to the total figures.

Q. But for last year what is the total for the exportation of cattle to the United States, the total amount?—A. I forget what the percentages were. They were very high. Do you remember, Mr. Kemp?

Mr. KEMP: No, I do not.

By Mr. Marquis:

Q. In fact, what did we export?—A. Oh, nothing. The fact that we are not exporting now is not due to the United States. It is due to our own embargo.

By Mr. Jaenicke:

Q. Mr. Deutsch, again referring to these cattle restrictions in the United States you say that anything over 400,000 will have to pay a higher duty. Can they put a restriction on those, too?—A. Over 400,000?

Q. Yes.—A. No.

Q. They could not?—A. No. As long as we pay the higher duty we can send any amount we like.

Q. But they could raise the duty? It is not bound?—A. They are bound.

Q. They could not raise the duty any more?—A. No.

Q. Now, do the non-discriminatory features under article XIII apply to article XI?—A. Yes, sir, they could not discriminate against us.

Q. You say this can only be applied where a program is now in effect?—A. Where a program is in effect. In other words, take the case of cattle. If they have no program in the United States limiting the production of cattle they could not use this clause. They could only put a restriction on our cattle going in there if they have a program in their own country restricting the production of cattle in the United States.

Q. A program in effect at the time that this treaty came into effect, or could you do it later?—A. You could do it later, but it is at the time you use this exception. They have never had a program restricting the production of cattle in the United States, and it would be very difficult for them to have such a program. As far as we gathered there is no intention of having such a restriction on cattle production. It is a very difficult program to put into effect for cattle. It would be very difficult for them to work out a program which would allow them to use this escape clause. It would apply more to things like wheat, sugar, cotton and perhaps wool, things like that, where this clause might be invoked.

By Mr. Quelch:

Q. In view of the fact that we have placed a ban upon the domestic production of margarine would that not give us the right to place a ban on the importation of it, or does butter take the place of it?—A. This is so worded that I do not think it would apply to margarine.

Q. It could not.—A. No.

Q. I am thinking of subsection 2(c).—A. Yes. "Imported in any form necessary to the enforcement of governmental measures which operate to restrict the quantities of the like domestic product permitted to be marketed or produced." Then it goes on to say, "or, if there is no substantial domestic production of the like product,"—in other words, we would have no production of margarine—"of a domestic product for which the imported product can be directly substituted." In other words, that is butter; to keep our margarine ban on the basis of this exception you would have to have a restriction on the production of butter. If we did have then, of course, it could be done, but not without that. The margarine question falls under a different clause.

Q. That is under a tariff?—A. In the case of the tariff we have not bound the tariff, so the government can put on any tariff it likes.

Q. There is no section of the Geneva Agreement that permits a ban on margarine apart from the tariff?—A. I think that is so, although some of the legal experts have opined that even under the Geneva Agreement the government could continue the ban on margarine, but that is a purely legal opinion. Our understanding is that the Geneva Agreement would not permit the continuance of the ban, but I must go on to say that at Havana the provisions were changed which would enable us to continue the ban on margarine.

Q. That is what I find hard to understand. We are discussing the Geneva Agreement which apparently has been changed in part by the Havana conference agreement. Nevertheless we are still confined to the discussion of this agreement

which has become obsolete in some regards on account of Havana.—A. It is not obsolete; until Havana comes into effect this stands, but when Havana is implemented then Havana will replace this, but we do not know when that might be. In the meantime this thing stands.

Q. If we had certain objection to certain clauses here which were changed by Havana I suppose you would feel that will be taken care of in the future?—A. That is right, but when that might be we do not precisely know. In the meantime this stands.

Mr. QUELCH: Mr. Chairman, there is a question I should like to ask on the whole question of non-discrimination. Articles XI, XII, XIII and XIV deal with the question of restrictions and non-discrimination. Would it be all right to ask a question of a general nature?

The VICE-CHAIRMAN: I suppose so, although I think article XIII would cover that.

The WITNESS: There is an article on that.

By Mr. Quelch:

Q. Article XII would really be the one dealing with balance of payments?—A. Balance of payments, and then we come to non-discrimination, and then we come to the exceptions to non-discrimination. We can discuss it anywhere you wish but perhaps it might come better a little later.

Q. We will wait until article XII. That is where I want to deal with balance of payments.

The VICE-CHAIRMAN: Are there any other questions on article XI?

By Mr. Hazen:

Q. I should like to ask a question. I do not know whether I should ask it now. It is about the reduction in duties on textiles and rayon that has been granted under the present budget. How are we able to grant those in view of the agreement?—A. I can answer it if you like.

The VICE-CHAIRMAN: It does not come up here.

The WITNESS: It does not come here. There is nothing in this agreement which prevents us from lowering a duty. We can lower any duty we like.

By Mr. Marquis:

Q. Or abolish a preference?—A. Or abolish a preference, if you like. Nothing in this agreement prevents us from doing that, but in the case of cotton and rayon piece goods we did not abolish the preference; we simply suspended the preferential rates. We suspended the preferential rates and then we brought down the M.F.N. rate by the same amount, still leaving a duty on the M.F.N. We brought the M.F.N. down so as not to widen the margin, you see.

By Mr. Jaenicke:

Q. You did that in the spirit of this agreement?—A. That is right, but there still remains a duty on the M.F.N. although the duty on the British has been removed.

The VICE-CHAIRMAN: Article XII, gentlemen?

By Mr. Blackmore:

Q. I wonder if you could illustrate No. (iii) of (c) a little.—A. This is a very special clause. I do not think I am revealing anything by saying that one country wished to continue a policy which it had in effect. That country wanted to control the production of livestock and livestock products, and

wanted to do so by limiting imports of feed stuffs because that country did not produce feed stuffs in any important quantity. The only way they could do it in practice was to limit the imports of feed stuffs because again it is very difficult to control the output of cattle, very, very difficult to control it directly, but they had a system for doing it by controlling feed stuffs. In a case where a country does not produce many feed stuffs the control is very simple, by putting a control on the imports. This would permit them to do that.

Q. Can you give us a case where that has happened?—A. One of the European countries has been doing this. One of the countries has been controlling the production of their own livestock for domestic reasons. They were doing it as part of their post-war reconstruction and they were doing it by controlling the imports of feed stuffs. This would permit them to continue to control the imports of feed stuffs. The reason that other countries did not object, and we did not object to that, was that the country was not doing it for the purpose of protecting its own production of feed stuffs. It was not a producer of feed stuffs so other countries which were interested in selling feed stuffs were not particularly affected. They were not trying to promote their own production as against imports. Other countries felt, "if you want to do it that way it is all right; it does not seem to hurt anybody particularly."

By Mr. Isnor:

Q. That country was not interested in exports?—A. No. In fact, they are large importers of both livestock products and feed stuffs, and they have no possibility of expanding their own production. It is just a domestic control they had which suited their particular program, and other countries felt there was no reason why that should be upset because it will not damage anybody, so we allowed it to go in. It is a very special case.

The VICE-CHAIRMAN: Article XII, gentlemen?

By Mr. Hazen:

Q. I should like to ask another question about cotton textiles and rayon. Great Britain was given a reduction on the tariffs. Can any other country which exports those goods into Canada claim the same reduction under the agreement?—A. What was done was the British preferential rates were suspended entirely. In other words, any country that was entitled to the British preferential tariff can ship cotton and rayon piece goods free of duty to Canada, any country entitled to the British preferential tariff. Those, of course, are limited to the British countries. The only country that has any interest is the United Kingdom among the British countries. The only country really interested is the United Kingdom, but technically all countries entitled to the British preference can send these articles free to Canada. The Geneva Agreement requires the Canadian government not to widen the margin of preference. Well, if it is not allowed to do that it must reduce the M.F.N. rates by the same amount that the British rates were reduced. That is what was done, but since M.F.N. rates were higher than the British rates, there still remains a duty on the M.F.N., while the British is free.

By Mr. Jaenicke:

Q. You said that Britain is the only country affected by that. Is India not still in the British Commonwealth of nations?—A. Yes. India has exported to Asia, but we have never received any appreciable shipments from India.

By Mr. Timmins:

Q. Has the preference been moved now?—A. The preferential margin existing today is exactly the same as it was on Monday. In connection with this list of goods there was for example a 17½ per cent rate against the United

Kingdom,—a rate of $17\frac{1}{2}$ per cent British preferential tariff, and there was $17\frac{1}{2}$ per cent plus three cents a pound on M.F.N. countries. So there was a preferential margin of three cents. The British rate was $17\frac{1}{2}$ per cent and M.F.N. was $17\frac{1}{2}$ per cent plus 3 cents. What was done was that the British preferential was removed temporarily from $17\frac{1}{2}$ per cent to zero. If we had done nothing more than that, the margin would be widened, you see, between the M.F.N. and the British preference. The new margin would be the difference between zero and $17\frac{1}{2}$ per cent plus 3 cents a pound, but that was not permitted under the Geneva Agreement. Therefore, we had to remove a similar amount from the M.F.N., and we simply removed the $17\frac{1}{2}$ per cent from the M.F.N., leaving 3 cents a pound. The rates now are free to the British under the British preferential rate, and 3 cents to the M.F.N. Therefore, the margin is exactly the same as before but the rate of 3 cents a lb. still remains on the M.F.N.

Q. That means that the British preference has been reduced by $17\frac{1}{2}$ per cent?
A. That is right.

Q. But what I am suggesting is that we have not done that. Having entered into that bargain, so far as Geneva is concerned the United States will never let us put that back where it was before?—A. Certainly, they cannot stop us. This is a voluntary unilateral act on our part. We did not bind that decrease so the government is free at any time to put it back where it was. It did not bind the decrease.

Q. Under the Export Control Bill we have put quotas on pretty much the same sort of goods coming in from the United States, have we not?—A. That is right.

Q. And at the same time, by reason of the situation that existed before, Great Britain would be almost able to flood our market with those goods, and we would be quite satisfied to have them. How does this customs arrangement of a few days ago affect the situation?—A. In the first place, Mr. Timmins, we were far from being flooded by the British. In fact, we were falling far short of what we wanted to get from them and the very purpose of making this reduction is to enable us to get more of their textiles. We want and need them. If they were sending us the quantities we want there would be no point in this thing, but it is precisely because the opposite prevails. In other words, we are getting far less than we needed or hope to get and far less than it seems likely we will get during this year.

Q. Then this was a spur to obtain more articles from the United Kingdom?
—A. Yes.

By Mr. Isnor:

Q. Would the price of the manufactured article not enter into this as well? Naturally it would have its effect on the price market.—A. Certainly. The understanding was that the reduction in duty would be passed on to our buyers. That was one of the understandings of this whole action.

The VICE-CHAIRMAN: Gentlemen, it seems to me we are discussing tariffs at the present time and not the Geneva Agreement. I think that question should have been put on article I, subsection 3 (a) and we have now passed that article, and I think we will revert to the balance of payment.

By Mr. Quelch:

Q. The question I should like to ask relates to Articles XII, XIII and XIV. Mr. Deutsch is no doubt familiar with the discussion that took place in this committee at the time of the Bretton Woods Agreement. Many felt that the Bretton Woods Agreement placed the main pressure on the debtor nations in order to bring about the balance of payment, and, except for article VII, nothing was placed on the creditor nations to bring about the balance. I remember that at that time it was suggested the situation would in all probability be taken care of

under an international trade agreement, such as we have before us now in the Geneva Trade Agreement. It seems to me, however, that the Geneva Trade Agreement further aggravates the situation. It would appear to me that a debtor nation must have the right to say to its creditor nation, with which it has an unfavourable balance of trade, that either that nation will have to buy more goods or that it, the debtor nation, should have a right to place restrictions against the imports of the creditor nation, without having to place similar restrictions against other nations with which it might have a favourable balance of trade.

I should like to ask Mr. Deutsch whether he agrees that a debtor nation, which has an unfavourable balance of payment with one nation and a favourable balance with another nation, should have the right to restrict imports from that nation without having to place similar restrictions against the imports of other nations. I do not merely refer to the period of transition but to a matter of policy for all times?—A. You are asking me my personal opinion, are you, sir?

Q. First of all, that is not permitted under the Geneva Agreement as a matter of principle, is it?—A. No. Taking your questions in order, sir, the first proposition you made was that a country which was a debtor country should be permitted to control its imports from the creditor country so as to improve its position. Well, that is permitted under Article XII, but I am not quite sure what you mean by a debtor country. I assume you mean a country that is in balance of payment difficulties.

Q. Yes, and one that has exhausted its funds.—A. A country might be a debtor nation and might still be in favourable balance of payment.

Q. But it has to control them on all nations on a similar basis?—A. I was coming to that. Under normal circumstances it is not supposed to control the imports in a discriminatory manner. It is supposed to control the imports from all countries, but under Article XIV, which comes later, for a period following the war and for a period of readjustment, countries may discriminate. Now, what you are objecting to is the fact that there is a limit.

Q. Yes.—A. You are asking whether it is a wise or unwise provision to be able to discriminate for that five-year period only.

Q. Yes, in view of the fact that we have always had difficulties in the past.—A. I think you have to weigh the various advantages and disadvantages. It is not a black and white case, and people can come to their own conclusions as to whether the black outweighs the white or vice versa. The whole purpose of the provision is to try and re-establish a multilateral system of world trade where countries are free to sell their products in places where they bring the best returns. In other words, the exporters of any country are free to sell wherever they choose in order to get the best returns that they can. Similarly, on the other side of the picture, it is to enable countries to buy wherever they choose in order that they may get the most advantageous terms. It is assumed that an arrangement of that kind leads to the greatest measure of prosperity for all. That is the assumption.

MR. BLACKMORE: It is merely an assumption.

THE WITNESS: If a country is free to make the best bargain it can make in both what it sells and what it buys, it will be able to achieve the greatest prosperity.

By Mr. Quelch:

Q. Does not this work out to the benefit of the chief creditor nation, the United States? Canada is now in balance of payment difficulties with the United States, but we have large credits in Europe. However, under the Bretton Woods Agreement, they are of no use to us.—A. Might I just carry on with the explanation I was giving. I was explaining that that is what is meant by multilateral trade. Each country is given the opportunity to sell on the best

markets, and it is given the free opportunity to buy on the best markets. The other side of the picture is this: if countries are permitted to place restrictions arbitrarily, let us say, or for reasons of policy, against imports of some countries and not against the imports of other countries; and similarly, countries that are buying from others are able to determine arbitrarily the source from which they buy, such a situation could easily lead to a case where every country will try to strike an even balance in its trade with the other countries. Suppose a country is selling \$100,000 to a certain country and buys \$200,000 worth of goods from that same country. If there is perfect freedom to put on whatever controls are desired, the tendency would always be to try and bring the trade into balance. The country which is buying \$100,000 and selling \$200,000 worth of goods is vulnerable. Its customers will say, "You have either to buy \$200,000 worth of goods or we will cut down your exports to bring you into balance." If every country around the globe does this, the result will be that the total of world trade is going to be reduced.

Q. Does not the responsibility to clear the credit remain with the creditor nation?—A. The trouble is, who is going to pay for such clearances? What you are saying now is that it is a good thing not to have these bilateral balances, and if we have them let somebody else pay for the differences. That is a very difficult thing to do, and it is quite impracticable.

Q. That would be true if the nations holding these credits did not have the goods with which to clear them, but history has shown that nations did have the goods to clear them.—A. In the past some of the creditor nations have not permitted the inflow of goods to the extent that I think they should have, but this is precisely the sort of problem that this agreement is trying to deal with.

Q. Where do we get to if the multilateral trade system does not work? We have a serious deficit in United States dollars and large credits in Europe, which cannot be converted under the Bretton Woods Agreement, and if that situation continues surely we should have the right to say to the United States, "You have to buy more from us in order to do away with the scarcity of American dollars."—A. That is what we are trying to do here.

Q. Can you guarantee that that will be done?—A. Mr. Quelch, one cannot guarantee anything in this world of ours.

Q. Should there not be an escape clause for all times? I remember Mr. Rasminsky saying that there would have to be a change of heart on the part of the United States. Suppose that change does not come. We have now tied ourselves down to the position where we have to bring about a balance of payment or suffer penalties under Article V of the Bretton Woods Agreement.—A. No, the purpose of this agreement and of the Bretton Woods Agreement and of the International Bank and of E.R.P., is precisely to bring about a situation where this universal shortage of United States dollars can be overcome. All these things are so designed as to re-establish the kind of trading in which we can sell to Europe and Europeans can pay us in money with which we can buy our requirements from the United States. These things are all directed that way. You say that this will fail. In this program one of the principal factors has been the United States. It has itself taken the leadership in adhering to undertakings which require it to take more goods from the rest of the world. That is precisely what this whole thing is about.

Q. Apart from the reduction of tariff, what are those undertakings?—A. In the first place, they not only bind themselves not to increase tariffs which they have bound, but to reduce the tariffs under the Geneva Agreement. After the last war just the opposite happened. The United States did not bind themselves but raised their tariff and created a lot of trouble for the whole world. That is what happened before and that is what brought about the results to which you refer. This time we are beginning in an entirely different

way. The United States says, "We are prepared to reduce the tariffs and bind them at the reduced rates, and, furthermore, we are prepared to tie our hands by the provisions in this agreement which do not give us the unilateral rights to control imports from other countries." Indeed, the up-shot of these agreements goes farther than that, because the only countries that can control their imports are those countries which are in balance of payment difficulties. Those countries which are not in balance of payment difficulties cannot control their imports by quantitative restrictions. That means that the United States, which is not in balance of payment difficulty nor will be as far as I can see in the foreseeable future, has not the right generally to control United States imports by means of quantitative restrictions. That is what is set forth here. Countries who are in balance of payment difficulties may do so. For all practical purposes every country in the world may control its imports from the United States, but the United States itself cannot control the imports from those same countries for exchange reasons.

Q. On the other hand, the United States is producing far more than the people are able to buy and they have a large surplus. How can they import? Who is going to import goods into the United States if they already have a surplus on hand? At the present time their production is far in excess of consumption. They, at the present time, are exporting about \$6 billion more than they are importing. They would like to cut that down, but the situation will probably be that their total production will be in excess of the effective demand in the country and they will have an exportable surplus. So long as they have that surplus is there any likelihood that the people in the United States will import?—A. At the present time the United States would very much like not to export as much as they do, and they are giving free gifts to Europe in large quantities to enable the European countries in the future to do without buying from the United States to the extent they do today.

Q. But when they get beyond that transition period, when the European nations get on their feet and are able to produce more goods and are anxious to pay for their imports by exports, United States production will still be high and will probably be in excess of the effective demand?—A. That is not necessarily so.

Q. That has been the history in the past.—A. Not always.

Q. In the thirties; since the war?—A. No, not since the war.

Q. Since 1914?—A. Not always as you say.

Q. They were expanding their exports?—A. Certainly; we were, too, and everybody else was. It is true there were fluctuations, and in the thirties there was over-production. That has happened from time to time in history, but there were many periods where the opposite condition prevailed.

Mr. BLACKMORE: Give us a year in which that was the case since 1918.

The WITNESS: Most of the years after 1920—1928.

Mr. BLACKMORE: Say three or four years; give it to us the next time when you have had a chance to look it up.

The WITNESS: I have looked it up.

By Mr. Timmins:

Q. Mr. Quelch speaks of when the countries of Europe get on their feet; but when the countries of Europe can get on their feet so that trading may go on, it would be by getting American dollars, would it not?—A. Yes.

Q. And the only way they can get American dollars is to sell goods to the United States and get American dollars that way?—A. Or buy less from the United States.

Q. Through E.R.P. or borrow, as you say. Now, we in Canada want to sell as much as we can sell to the United States and we have to do it, and Australia has made up her mind to do that very thing, and the United Kingdom has set all kinds of plans to get into the American market to sell their goods. How in the world are we all going to get that much money from the United States by reason of the goods that we will sell to her if we are going to get trade moving so that Canada is going to get more American dollars and so that all the other nations can do that? How can it be done?—A. Certainly it was done during the twenties, and in most of our history.

Mr. QUELCH: The Americans made large loans.

The WITNESS: Certainly. Loans will not cease, because other nations will want the loans.

By Mr. Blackmore:

Q. They did cease in 1928 and 1929, did they not?—A. Yes; I am not going to say that the 1920's are the ideal situation but there was a great increase in prosperity in that period.

Q. 1928 was sort of the peak of prosperity?—A. Yes.

Q. That thing occurred there—the cessation of American lending.—A. It occurred in 1929.

Q. It started in 1928 and it went on.—A. It may have declined in 1928. Those things fluctuate. But in the twenties the United States did lend a considerable amount of money abroad. Of course, the only way a country can lend abroad is by exporting more than it imports, and if there are large loans there will be an excess of exports over imports.

By Mr. Quelch:

Q. We hope in the future that in order for a sufficient quantity of American dollars to be obtained by other nations of the world it will not be necessary for them to continue indefinitely to borrow from the United States; otherwise, it means that the world is gradually going into debt to the United States. In order to avoid that it will mean that the United States will have to buy; eventually they will have to balance their own trade. That will require changes within their own system to expand effective demand. Do you think there is any likelihood of that? This will depend upon it.—A. That is quite right. If the United States by one device or another refuses to import and to increase its imports this thing will collapse.

Q. The nations will go more into debt with the United States. Then there should have been an escape clause to protect ourselves so that we can say to the United States, "We are not prepared to go into debt with you. If you are not going to balance your trade with other nations we are going to have the right to curtail our imports from you and buy from other countries." We should have that not only for five years but for all time.—A. We have it.

Mr. TIMMINS: You mean if we get into a dollar—

The WITNESS: Yes; if we get it under the Bretton Woods agreement. If there is an exhaustion of United States dollars in the fund there is the right given to all the countries to ration imports from the United States.

Mr. QUELCH: The articles of the Geneva trade pact?

The WITNESS: Yes, also under the Trade pact.

Mr. TIMMINS: Is that XII-2-(i)?

Mr. QUELCH: It is article VII.

The VICE-CHAIRMAN: Gentlemen, will you allow me to interrupt you for a moment? Mr. Deutsch has received a very urgent phone call. Will the com-

mittee permit me to suspend his testimony for about five minutes while he answers that call?

The committee took recess.

On resuming:

The VICE-CHAIRMAN: Mr. Deutsch, had you finished replying to Mr. Quelch's question?

The WITNESS: Mr. Quelch, I share the general apprehensions that you have expressed, that if there is a severe depression in the United States lasting for any period of time or if the United States refuses to carry out the purposes which are laid down here, for one reason or another, then this thing is going to face great difficulties. But the purpose of all this is precisely to remove these things which have caused troubles in the past. In this thing the United States itself has made very important commitments and has not only made the commitments but has taken the leadership in developing those institutions whereby the new efforts may be carried out.

Now, I say you cannot forecast; with certainty things may happen; they may not carry them out or a severe depression may occur.

Mr. JAENICKE: Or congress may reject it altogether.

The WITNESS: Or congress may reject it altogether. Of course, we cannot foretell that absolute certainty. Furthermore, there is no magic solution to this thing. There is no place where you can go and say, "here is the solution and there is no other solution: here is the magic solution of our troubles in the future". Simply to say you have not found that magic solution it seems to me is not going to get us anywhere. We have to work with the instruments we have; and try to learn from what has happened in the past and try to prepare for the troubles of the future. That is what we have done.

Mr. MCKINNON: Should these unforeseeable and regrettable circumstances develop and the United States should fail to carry out its obligation either under the agreement or under the charter or both, then we in turn are all released from our obligations.

The WITNESS: Certainly. If that happens this whole thing is over.

Mr. QUELCH: The mere fact that the United States refuses to import goods from other countries would be a breach of the Geneva trade pact; but there is nothing in the Geneva trade pact which compels them to buy.

Mr. MARQUIS: They are obliged to respect their own obligations.

Mr. QUELCH: Yes, but would other nations be able to respect their own obligations?

By Mr. Gour:

Q. Mr. Deutsch, did I understand you to say that the United States was the first country to come to that understanding at Geneva and Havana?—A. Yes.

Q. Now, did I understand that they offered to reduce their tariff to every nation that wanted to ship their goods to them?—A. Yes.

Q. On the another hand, it is an understanding among countries which is best for the world just now; is that right? I am sure the United States will not buy goods outside of that country when she has plenty of those goods in her own country. We cannot ask the United States not to produce. They have offered to do their best, because they have lots of money and they are prosperous and they have lots of goods. They have offered to the other countries to get the goods cheaper than they did before with no tariff barrier or a very small tariff—they offered that to the other countries to help them out. If the United States or other countries will not respect their own word, well, it is a question that we cannot give our word to them or to any country. However,

I do believe that the United States is doing its best for the world, as are some other nations; therefore I think this is a splendid thing for us to try, and if later on there is a disagreement it will not be our fault if we have tried to make it work.—A. That is right.

Q. We would have done our best. Later on somebody else might take our place, but I do believe it is our duty to try to get a better trade understanding than we had before.

By Mr. Timmins:

Q. Following up what Mr. Quelch was speaking about when talking about the imports of the United States: if the United States merchants or wholesalers or manufacturers do not desire to purchase any more wool from, say, Australia, I do not suppose Australia can force the United States to take the wool?—A. Of course not, sir. I think in this whole matter we must bear in mind that all the United States government can do is to give other countries certain assurances that it will not prevent other countries from doing their best to get into their markets.

Q. They will leave the door open?—A. They will leave the door open. The United States government, as such, can only say: "We guarantee you certain treatment and we will guarantee that your treatment will not be worse than this and this"; and that is what they have done in this agreement.

Now, of course, if other countries do not produce the kind of goods that the Americans want to buy or do not produce them at a price that is competitive or do not produce them in quantity and form and standard which the Americans want, that is hardly the fault of the United States.

Q. As a matter of business?—A. As a matter of business. In this thing there is a two-sided obligation. It is not quite enough simply to say that the United States must be the Santa Claus for everybody, and that they must stand ready to take whatever they want to ship them without regard to price, and if they do not take them they are breaking international obligations. That to me is not realistic. Other countries must be prepared, if they want to sell to the United States, to sell them things the United States wants to buy, that they can afford to buy, and at prices which are competitive.

By Mr. Isnor:

Q. It is equally fair to say the United States made a very generous gesture in regard to doing business with all nations of the world?—A. They made a gesture.

Q. Because of their very favourable position as a wealthy exporter they invited a certain amount of trade with others. Now, Mr. Deutsch, I am going to ask you if that position exists in so far as the world is concerned could the same principle not be applied to this nation of ours? Could your department not undertake a survey in the various provinces so that the two prosperous provinces, namely Ontario and Quebec, could be made to realize that they could be of some assistance to the rest of Canada as the United States is to the world?—A. I am afraid that gets us into another field. That gets us into the field of dominion-provincial relations. I do not know whether the committee want to go into that.

The VICE-CHAIRMAN: No.

By Mr. Jaenicke:

Q. The United States today occupies about the same position that Great Britain occupied prior to the first world war?—A. I think that is a very good way of putting it.

Q. And is not our whole trouble that the United States does not measure up to Great Britain? Would that be a fair question?—A. She will not measure up?

Q. Yes. Have they gone far enough in this treaty?—A. To—

Q. To take the position of the world's banker?—A. That thing is complicated by the very great disruptions and dislocations that came out of this war. That is one of the more complicating factors in the situation. At the present time the trouble is not that the United States keeps out the goods of others. That is not the problem at all at the moment. The trouble at the moment is that production in Europe has not recovered anything like the scale to which it would have to reach if they are going to be able to get along by themselves. That is the real trouble, and until European production is restored our basic exchange problem of today cannot be solved. That is the real trouble at the moment. That is not solely the fault of the American tariff or American import policy. That is a situation that arises out of the war.

Q. You said before it cannot be solved with the instruments which we now have. What did you mean by the instruments that we now have?—A. Not with this particular trade instrument. This trade instrument can facilitate. What we need there are things like E.R.P. and the things which the European countries are trying to do among themselves, by closer economic arrangements among themselves, and so on. That is the way you can solve that problem, and they are working on it now. The whole purpose of E.R.P. is to bring about the recovery of Europe, which is fundamental and basic before all these other problems can be solved.

By Mr. Blackmore:

Q. Before the war broke out could we say that European production had recovered, or was in a thriving and prosperous condition before the war? Could we say that?—A. No, not entirely.

Q. We hardly would hope that the European countries would recover to a more prosperous condition than they occupied in 1926 or 1927, would we?—A. I hope so, yes.

Q. The condition to which they had attained in 1927 and 1928 was not sufficient to prevent them from getting into serious trade difficulties with the United States, and if we get them back to the condition they occupied in 1927 and 1928 that will not be good enough?—A. I hope not. I hope we can go further than that.

Q. I do, too, but I do not see how we can the way we are doing. I should like to ask one question on another line. The question was raised as to whether or not the United States does not now occupy a position comparable to that occupied by Great Britain before the first world war. The answer was given that she does. There is one qualification which I think should be made there. I think you would agree that Great Britain before the first world war was remarkably ready to accept pretty nearly any kind of goods in repayment for the goods she sent abroad while the United States today has a tariff structure keeping goods out which is so much greater than Great Britain ever had that you cannot compare the two at all. Therefore we certainly cannot say that the United States is in any way filling the position, or is prepared to fill the position that Great Britain did before World War I. The reason for that is that the United States has so much richer resources and so much more varied resources that she is not only able to be probably the world's finest primary product producer, but the world's finest secondary product producer. She is prepared to export every kind of goods and not prepared to import any kind of goods while Great Britain at her very best was only equipped to export manufactured goods and was not able to produce the primary products she needed. That makes a serious difference between the United States and Great

Britain. I think if we put those two facts along with the other they will be good food for thought.—A. I did not venture any opinion on the question whether the United States, in fact, will be able to take the role which the United Kingdom played before 1913. I did not venture any opinion on that at all.

Q. I realize that.—A. All I am saying is that the United States has by virtue of the sponsorship she has made of these programs changed very much her own conception of her role in the world. If you compare what she has done since the end of this war with what she did after the last war there has been a very important change of heart. All we can do is say, "Well, we will work along with you in that direction. Seeing you are prepared to recognize your position in the world we are prepared to work along with you on that, and if you give your word you will recognize your position in the world, you will make commitments, you will undertake to reduce your tariffs," all we can do is work along with that because that is the right direction. Whether she will go far enough, whether she will be consistent, whether she will not backslide in the future, that I cannot say. Those are questions which we will have to see how they work out. All we know now is their present intentions, their present commitments, are all in the right direction.

Q. If I may ask one more question then I will desist for a while. Are we in Canada, by reason of signing this Geneva Trade Agreement, binding our hands and rendering ourselves less capable of solving our problems by trading with nations other than the United States than we were before? If we give the United States commitments which injure us more than the commitments which she has given us help us that is an important major point?—A. To that question I would say no, because we have bound ourselves in certain respects, but we have done it in return for commitments from others. We have not bound ourselves unilaterally; we have not said, "We will tie our hands behind our backs and all the rest of you can do what you like." That is not what we have done. We have received concessions and commitments from others which are advantageous to us, and in return for those we have made certain commitments and concessions. The Canadian government agreed to that on the ground it was advantageous to us on balance. I say you cannot have everything one way. You cannot get commitments and concessions from others without giving some yourself. There is no way of doing it other than by this process. We made mutual concessions one to another which all of us feel are in the general interest. That is the essence of this. You cannot get concessions and commitments from others unless you are prepared to make some yourself. That is not practical politics.

By Mr. Marquis:

Q. Is it not true this agreement is intended to diversify importation and exportation of every country which is signatory to the pact?—A. That is quite so.

Q. Instead of centralizing importation and exportation to the United States, as we are always referring to the United States, it concerns all nations, and we have to import from some other nations if we cannot import from the United States, and vice versa.—A. That is right. This is intended to promote trade with all countries. There is one other point I should like to make in this general discussion which I think is important. We have a somewhat unique position as an international trader. We are a small country in terms of population but we are a very big country when it comes to international trade, a very big country, one of the very biggest in the world. We depend for our livelihood to a greater extent on international trade than almost any other country in the world. Therefore the conditions of international trade in the world are of fundamental importance to us. If we get commitments from others and concessions from others those concessions and commitments are terribly important. They are relatively

much more important to us than they would be to a country which is not so dependent on international trade. We often refer to the United States here as being a great and rich nation, but the United States is not dependent on international trade—

Mr. JAENICKE: Yes.

The WITNESS: Not in anything like the sense that we are. United States exports are approximately 5 to 6 per cent of its production. We export 25 to 30 per cent of our production. That 6 per cent cannot be held to be fundamentally important. It is important, yes, and of course they like to have it, but the country would not suffer terribly if that trade was cut in half. The country would still be a very rich and prosperous nation, but if our trade was cut in half we would certainly feel it, and we would have most fundamental difficulties in this country. That is the difference.

Therefore when a country like the United States makes commitments and concessions to others they are terribly important for countries like us. If the United States did not make those commitments or concessions and left itself completely free, to take arbitrary action or to take inconsiderate action, that could have most devastating effects upon us whereas the consequences to the United States may be relatively small because only a relatively small part of their whole production goes into exportation. Therefore we must always bear that in mind when we talk about commitments and concessions and things of that sort, that the concessions we get from others, particularly from a large country like the United States which is not so dependent on international trade, are terribly important for our own welfare.

By Mr. Jaenicke:

Q. You do not want to leave the impression that if the United States export surplus or their export world trade is cut in two that it would not have a tremendous effect on their whole economic structure? It would cause unemployment. I think the depression would be right there.—A. I think it would have an effect, but it would have nothing like the effect it would have on us. The United States could lose half its export trade and it could by other measures, by governmental measures of one sort and another, counteract it and hardly cause a ripple.

Q. But not under their economic set-up.—A. The United States is a very flexible country when it comes to questions of this kind. At the present time it is true that government action is very small, but that does not mean, if there is unemployment and a great decline in income, that the American government is going to sit by and do nothing. That cannot be simply assumed. It is clear that this problem of adjustment of the United States to a certain loss in its export market, is infinitesimal as compared to the problem we would have to face if we lost half of our export market. That is the point.

Mr. JAENICKE: I admit it would be greater, yes.

By Mr. Blackmore:

Q. The main thing is that the United States would have to adopt an effective method of internal distribution, but we in Canada would be unable to solve our problem so fully by merely adopting an effective method of internal distribution to do that. Neither would other nations you can name in the world.—A. That is a long story.

Q. The only combination of nations that would be able to do that in the world would be the British Empire?—A. Perhaps.

Q. And they would have more difficulty than the United States in doing so?—A. Yes, because of distance.

Q. And lack of development?—A. That is right.

Q. I think that should be included in clarification of what you said.—A. I said that the United States could adjust its loss of export much more easily than we could.

Q. I think Mr. Quelch was leading up to the fact that if the United States had shown evidence of attempting to adopt a satisfactory method of internal distribution, then our problem would not be what it is at the present time. The United States has not adopted any effective system of internal distribution and so her situation is quite a serious one.—A. All of us have in the back of our minds what would happen if there were a serious depression in the United States.

By Mr. Quelch:

Q. I think we all appreciate the E.R.P., but when the United States first put out their proposals they did not contain the wide escape clauses that the Geneva Trade Agreement contains, and so I take it that it is nations other than the United States who are chiefly interested in getting these escape clauses put in there?—A. I think that is true.

Q. Has not the Havana Agreement widened these escape clauses, and again at the instigation of other nations?—A. Not substantially. There have been some slight changes.

The VICE-CHAIRMAN: This general discussion on the whole Geneva Agreement has been most interesting, but are there no other questions on particular sections?

By Mr. Timmins:

Q. I would like to ask a question about article XII, clause 2. Under article XII (2) (a), is is provided that:—

No contracting party shall institute, maintain or intensify import restrictions under this article except to the extent necessary

(i) To forestall the imminent threat of, or to stop, a serious decline in its monetary reserves, or

(ii) in the case of a contracting party with very low monetary reserves, to achieve a reasonable rate of increase in its reserves.

That would be something like the position we were in before we brought in these import controls. Then the article goes on a little farther to say that:—

Due regard shall be paid in either case to any special factors which may be affecting the contracting party's reserves or need for reserves, including, where special external credits or other resources are available to it, the need to provide for the appropriate use of such credits or resources.

Mr. Deutsch, what would be the explanation of that?—A. In No. 2 it says that a country may put on these controls where there is a threat or a decline in its monetary reserves. Now, its monetary reserves may have been built up by the contracting of a loan. Suppose the country borrowed a billion dollars from the United States and then took all that and put it into its reserves.

Q. It says external reserves?—A. And it means reserves that can be used externally. It must be gold or American dollars.

By Mr. Jaenicke:

Q. Would it include investments?—A. I shall come to that. There are two points. Suppose a country had built up its reserves by borrowing a billion dollars and it had to pay back that billion dollars in five years' time. Well, the country might say that it is going to impose import controls because it finds itself in a bad situation. If it did not have regard to that loan reserves would be considered as low. It might be said that the country has a billion dollars in

reserve resulting from the loan; but they have to pay it back in five years. Therefore, they cannot include that loan in their reserves because it is a fictitious picture. All this does is to say that you can adjust the reserves by any special credits you may have obtained, so as to give the real situation. What is meant here by a reserve is a liquid reserve and not a reserve arising out of short term debts. In other words, our loan from the United States would not be called a reserve in our case.

By Mr. Blackmore:

Q. Nor in their case?—A. That is right. It means liquid reserves, things that are quickly realizable. It also means realizable on any market in the world. In other words, if we had a very large holding of Czechoslovakia crowns, let us say, or some currency of that sort that cannot be used easily, that would not be regarded as a reserve. It has to be something that can be used readily, such as gold or United States dollars.

By Mr. Marquis:

Q. Suppose the United Kingdom made an annual payment. That would only be included in the reserve when it is paid and not before?—A. That is right.

By Mr. Blackmore:

Q. Then the payment would have to be made in American dollars or in gold; otherwise it would be of no value?—A. That is right. Your position is pretty well protected here. If you have ready realizable liquid reserves and they are threatened with a rapid decline then you may act to protect your situation.

Q. But you must not be discriminatory even then?—A. You may be for the next five years.

By Mr. Jaenicke:

Q. With relation to article XII, subsection 5, could you tell me how many countries outside of Canada have made use of this section by applying import restrictions because of balance of payments? What is the extent of the nations signing this contract having taken advantage of this article? I know Canada is one.—A. They are legion. Those who have not taken advantage of it are better known.

Q. Would you say there is a persistent and widespread application of import restrictions now?—A. Yes.

Q. Are the nations consulting now as this article says they are?—A. It was not intended that this should apply to the present situation. When I say the present situation I refer to what is known as the transitional period. This refers to a period of five or six years from now after the transitional period is over. No one expected anything else but a widespread application of this at the present time.

Q. Are they on the same basis as ours? Are they discriminating against us?—A. Yes.

Q. What countries?—A. Most of the European countries are discriminating against us because they have to. They do not control the imports from one to another in the same degree that they control the imports from the western hemisphere.

By Mr. Blackmore:

Q. I wonder if Mr. Deutsch would be kind enough to give us a brief account of the conditions that he foresees which might probably come into existence within the next six years that would make our situation considerably different from what it is now. He says that we are now in a transitional period. I

would be much interested to know the factors which are making this at the present time a transitional period, and I should like to have an idea as to how these factors might be eliminated in the natural course of events in the next six years.—A. The most important consideration at the present time is the condition in Europe, which is certainly not a normal condition.

Q. Do you mean in respect to their inability to send us goods? There are a great many goods that we would accept from Europe if their recovery was effected?—A. That is right.

Q. That would not affect our relations with the United States except insofar as we would buy goods from European countries rather than from the United States. But, as matters now stand, being as close to the United States as we are and liking their goods and their prices, would the pressure to buy the United States goods be just as much even if European recovery were effected in the course of the next six years?—A. There will always be a tendency to buy goods from the United States, but it is always a greater tendency when there are not other countries from which to buy the goods. We can only buy American goods now. That is the situation. One reason why our imports from the United States have increased so enormously is that we have been unable to get these goods from anywhere else. They do not have them. With respect to our imports of textiles, before the war, our imports of these commodities from the United States were very small, while from Europe they were quite sizeable. However, in the last few years our imports from European countries have been almost negligible while our textile imports from the United States have risen tremendously. The answer to that is that the European countries do not have the textiles to send to us. Our choice is either to get nothing or take them from the United States.

Mr. TIMMINS: The same thing applies to glass products and dried fruits and iron and steel products.

The WITNESS: Yes, they have been unable to send us these goods. We also imported a great range of luxuries a lot of which came from France and Czechoslovakia, but those countries have been unable to produce them. Anthracite is another product which falls in this category. As I say, the Canadian consumer wanted these things and the only place he could get them was from the United States, and so he bought them from there. That is why we refer to this as a transitional period. We certainly do not like this situation, but European countries are not producing enough. The purpose of our own credits, which were extended during the last two or three years, and now the purpose of the E.R.P., is to try to get Europe back on its feet, so that it can send us the things it used to send us. Until that situation is restored we cannot come to any solution because at the present time we are so dominated by the lack of production in Europe. Our hope is that a European recovery program and other assistance that might be given in the next four or five years will restore that production in Europe.

By Mr. Quelch:

Q. If, as a result of discussions that might take place, this decision is arrived at that certain nations who are suffering from unbalance of payment should impose a deflationary policy, is there any means by which that nation could be compelled to adopt that policy? Would it merely be an advice given to that nation or would there be any provision for that?—A. This brings us to the problem which I think has been worrying Mr. Quelch as well as others. Suppose a major depression starts in the United States of the kind that we had in the thirties. We do not know whether it will happen, but we all wonder about it. We hear a lot about it. If that happens many difficulties will arise. Few countries would be able to follow the provisions of this agreement. This is what would happen: The countries that would be put into trouble by a depression in

the United States would start to apply the import controls of article XII. In other words, they would control the imports from the United States, and that country would then be faced with the situation that possibly every other country in the world would be putting controls on their exports whereas United States itself would have no right under this agreement to put any controls on what they would buy from other countries.

Q. You say that they would impose restrictions against the United States under article XII. Nevertheless, they would have to impose restrictions against each other and they might have plenty of goods to trade with each other?—A. That is where the discussions come in. If that situation were to develop it would be clear to everybody that the source of the trouble would lie in the United States. Pretty quickly there would be general agreement that the real source of trouble lay with the United States. Now, unless the United States were to improve their situation other countries could not be expected to carry out their obligations and they would be within their right to release themselves of such obligations, because this agreement provides for the possibility of a waiver of non-discrimination provisions. Those countries that would be in trouble because of something that happened in the United States could make that waiver come into operation, and they would then discriminate against the United States. That is what could happen. This is not a hard and fast provision. The countries themselves could agree to waive this provision regarding non-discrimination in such case and those countries would be in the great majority.

By Mr. Blackmore:

Q. May I ask another question in regard to this matter? Before the depression and before the second world war, one of the things that made the situation intolerable for many of the European countries was the fact that the United States insisted on the application of the most favoured nation clause, even before this agreement. Now, was any provision made at Havana, in case the United States had a depression in her country which would bring distress to all other countries, that she would refrain from insisting on the most favoured nation clause as she did before the last war?—A. In the Havana agreement there is a section under which all countries undertake to do all they can to maintain high levels of employment and income within their own country, and under that section it is understood that if a major depression develops in one of the major countries that one of the basic conditions of the agreement has been broken and then a whole set of new adjustments have to come into operation. That is provided for and understood; but I might say that will apply more to the balance of payment section than to the most favoured nation clause. It is a tariff clause, and that depends upon actual tariff agreement. I do not think that the most favoured nation clause is an important element. How can you control your imports? That is what is important. The most favoured nation matter does not come into that.

Q. There were cases in which two European nations—I will not say it was actually agreed between those two—but such nations as, say, France and Belgium or Holland attempted to solve their difficulties by bilateral agreements and those were frowned upon by the United States and vetoed.—A. Not by the United States.

Q. The information I have says that that is the case.—A. I might elaborate on that. The United States cannot prevent and never could unilaterally prevent other countries from not observing the most favoured nation rule. That is up to themselves. All the United States can do is say, "If you cease to give us most favoured nation treatment we will not give it to you."

Q. That is the way they do it?—A. That is up to the other country. That certainly is not an abuse by the United States. They simply say, "If you refuse to give it to us we will not give it to you," and that is the elementary right of

any country. If you do not want to keep to a bargain, all right, break the bargain, but you cannot make me abide by a bargain which you have broken. Why should any country be put in that position? We would not want to be put in that position. Why should we be forced to give most favoured nation treatment to other countries that do not give it to us? All we can say is, "If you do not give it to us we will not give it to you." If you, in that situation, decided it was more advantageous to receive most favoured nation treatment than not, that is your own business. You have to make your own choice. I do not think there is anything wrong with that.

By Mr. Jaenicke:

Q. May I refer to one statement you made before: you said, one nation one vote?—A. Yes.

Q. Where do you find that in the agreement?—A. In a later article.

Q. Is there a constitution, or is it in the Havana charter?—A. It is in the Havana charter. It is also in a later article here.

Q. That is fine if it is in an article.

The CHAIRMAN: Now, gentlemen, we have dealt with articles XIII and XIV at previous meetings; should we consider them as having been passed, or are there any other questions you wish to ask on those two articles?

Mr. JAENICKE: I am satisfied.

The CHAIRMAN: Those refer to non-discrimination and exceptions to the rule.

By Mr. Quelch:

Q. With regard to article XIV, 1 (d), it refers to the contracting parties consulting with the fund. Do the contracting parties only consult with the fund where it is specifically mentioned in the agreement or would XII-5—would there be consultation between the contracting parties and the fund in that case?—A. Oh, yes, there would be consultation with the fund in that case. In all these exchange matters naturally there will have to be consultation with the fund because you have two organizations dealing with the same subject. If each one of them goes its own way completely you can get into trouble.

By Mr. Timmins:

Q. They are bound to the fund?—A. There is bound to be the closest consultation between them on exchange matters.

Q. In the fund the votes are according to the amount of capital?—A. In this organization there is one nation one vote. Of course, the fund cannot do anything to dominate this organization.

By Mr. Blackmore:

Q. Except through the individual members?—A. Except through the individual members; but the individual member has only one vote in this organization.

Q. The individual members are members of the monetary fund?—A. That is right, but they have one system of voting in the fund and another in this organization.

By Mr. Quelch:

Q. It is all right so long as the fund cannot out-vote this?—A. It cannot veto anything.

By Mr. Jaenicke:

Q. It is only in an advisory capacity?—A. It is only in an advisory capacity in connection with questions arising. It does say they will consult; but when it comes to a decision this organization will make the decision.

By Mr. Marquis:

Q. When it is a matter of permanency it has to be referred to the fund?—A. It states they are to consult with the fund, but they do not have to take their decision when obligations are enforced.

By Mr. Blackmore:

Q. The fund can deal with individual members as members of the fund regardless of the commitments in connection with Geneva?—A. Yes, inside the fund.

Mr. TIMMINS: Mr. Chairman, some time ago Mr. Kemp gave me a schedule showing tariff items and sub-items of the British preferential rate in respect of the margin between the British preferential rate and the most favoured nation rate which had been eliminated as a result of Geneva—ninety-four items. It also shows the nations responsible for having this elimination take place. It is a handy schedule and I wonder if the committee would like to have it on the record.

The CHAIRMAN: I think it is already on the record.

Mr. MCKINNON: It is in the record, No. 2.

Mr. TIMMINS: There was one schedule which Mr. Kemp gave me that had to do with six primary commodities which are manufactured in Canada: axe heads, asbestos, laundry machinery, automobile parts, aluminum products and electrical appliances; and it shows the reductions in each of these cases which have been made by various nations in their tariff in allowing our goods to enter their countries. It is a handy schedule, but it is rather long. I am putting it before the committee to see whether or not they would like to have it in the record.

Mr. BLACKMORE: I would like to have it in the record.

Mr. MARQUIS: Is it not already in the record?

The CHAIRMAN: No, that was given to Mr. Timmins for him to go through and see whether he wanted to question Mr. Kemp on it. Was not that the understanding?

Mr. TIMMINS: The question was whether or not it was too long to be put on the record. I do not think it is too long.

Mr. MCKINNON: I misled the committee. I thought the vote was to put the list of ninety-four items into the record, but the secretary says it is not in the record.

The CHAIRMAN: If it is not in we will put both of these items into the record.

(See appendices "A" and "B" to today's evidence.)

By Mr. Blackmore:

Q. I wonder if it would be fair to ask Mr. Deutsch this question: is not the European recovery plan, commonly known as the Marshall plan, in effect really a device for renewing United States foreign lending to Europe?—A. It is not lending; most of it is a straight gift.

Q. Is there no lending?—A. Yes, there is some lending. A certain proportion of the fund may be given on loans, but the great majority of the funds are given as gifts.

Q. And are a good many commitments required from the various nations receiving assistance under that plan?—A. Some commitments are required; most of them are of the nature which any country which is extending free aid—which any country would expect.

By Mr. Quelch:

Q. Are there not limitations upon the type of production?—A. No.

Q. Not in England?—A. No.

Q. There have been such reports from England.—A. No, nothing like that in the sense you mean.

By Mr. Blackmore:

Q. Where can we get the authentic or real nature of this plan?—A. There is an Act passed by congress, the European Recovery Act.

The committee adjourned to meet again at 8.30 p.m.

EVENING SESSION

The committee resumed at 8.30 p.m. The Vice-Chairman, Mr. G.- E. Rinfret, presiding.

J. J. Deutsch, Director, International Relations Division, Department of Finance, recalled:

The VICE-CHAIRMAN: When we adjourned at six o'clock, we were just starting on article XV, exchange arrangements. Would you like Mr. Deutsch to explain briefly what this is all about or would you rather just ask questions?

By Mr. Jaenicke:

Q. Give us a short explanation.—A. Mr. Chairman, I should say to the honourable members before we finally leave article XIV that this article was amended at Havana. It was agreed among the countries who signed this Geneva agreement that that amendment made in Havana will apply as from January 1, 1949. In other words, the amendment is definite. It has been fully agreed upon by all the countries who signed this agreement.

I should state very briefly what the amendment is so honourable members will know what the correct picture is now. At Havana, article XIV which contains the exceptions to the rule of non-discrimination, was widened somewhat by introducing a provision which will enable countries to continue to have such rights and such privileges as they have acquired under the International Monetary Fund. As the article stood in its original form, namely, the form that is in your document before you, the article restricted the privileges which certain countries had under the International Monetary Fund. Those countries wished to retain their full rights under the International Monetary Fund and their desire prevailed. As a result of that, provisions were written in here which give those countries the right to continue to exercise the controls which they are allowed to exercise under the International Monetary Fund.

However, that in no way affects the Canadian position. We had no particular escapes under the International Monetary Fund, so that change made at Havana does not change our position. So far as Canada is concerned, it will, in practice, be governed by the provisions of the clause as it stands here. I just wanted to make that clear to the members.

Q. Would it be permissible for you to tell us what countries those were and what controls they exercised?—A. The countries were mainly the countries in Europe and some of the countries in South America. Under the International Monetary Fund very liberal provisions were made available to the countries which were occupied by the enemy. Those countries which were occupied by the enemy were given a very large measure of freedom to control their exchanges for a transitional period after the war on the ground those countries were in a very difficult economic situation and would have to take extraordinary measures. The Monetary Fund agreement said, in that case, we will allow you to take extraordinary measures. They were given a very large measure of freedom to discriminate and make bilateral arrangements and a lot of other things because of the difficult economic situation in which they found themselves after the war.

The Monetary Fund said, for a period of five years, we will allow you to do pretty well what you like. However, after that you will have to get rid of these controls. Under the Geneva agreement this freedom was somewhat restricted. At Havana these countries said we need that freedom. We cannot accept the limitations put in here. The other countries agreed, so they added provisions making it possible for those countries to continue to exercise such freedom as they had under the Monetary Fund.

As I say, it does not affect the Canadian position because we were not occupied by the enemy.

By Mr. Quelch:

Q. Did France devalue under that privilege?—A. No, that applied to the exchange rate clause in the Bretton Woods agreement.

Article XV, exchange arrangements. This article deals with the relationship of the Geneva agreement to the International Monetary Fund agreement. Clearly, in this field of exchange, the two organizations overlap.

By Mr. Timmins:

Q. Does not the International Monetary Fund seem to have the last say and be the over-riding authority under this section?—A. Perhaps I should explain the whole section first, then I will come back and answer your question, Mr. Timmins.

As I was saying, in this field of exchange both organizations have functions which overlap and provisions had to be written in here to prevent any possible conflict or a confusion of policies. Therefore, in this provision it is stated, first of all, that the two organizations will make arrangements to consult closely on all matters affecting both organizations. They will set up machinery for such consultation.

It goes on to say, also, where a member of the Geneva club is not a member of the International Monetary Fund, then that country which is not a member of the International Monetary Fund has to enter into a special exchange agreement with the Geneva organization. This exchange agreement will cover practically the same things the International Monetary Fund covers. Consequently, for all practical purposes the countries will be members of both organizations or, at least, will be under the same obligations in respect of both the Fund and the Geneva agreement.

It also discusses the rule which the Fund will apply in considering the application of the exchange escape clause in this agreement. It simply states this; that the Fund will have the final say with respect to the fact as to whether or not a country's monetary reserves are dangerously low and what constitutes a serious decline in a member's monetary reserve. The voice of the Fund on that question shall be binding. You cannot put on those restrictions unless your reserves are, or are threatened with a serious decline or are dangerously low. Only when that happens may you apply the restriction.

The question is, what constitutes a serious threat and what is meant by a dangerously low reserve? Someone has to rule on that question. In this clause, it says that question of whether or not the reserves are dangerously low or whether they are threatened with a serious decline is a matter for the Monetary Fund to decide. The reason for that is this; the Monetary Fund has all the facts regarding a member's reserve situation. The Bretton Woods agreement requires each of the members to give full information and current information on the reserve position of each country. So, the International Monetary Fund has an up to date record at all times of the reserve situation of every member of that fund. Therefore, it is logical that the organization which has the information should pass on the facts as they are known. To that extent, Mr. Timmins, the fund has a voice, but only a voice as to the question of fact. It does not even go so far as to say that if the fund pronounces unfavourably on the country concerned that country may not go ahead, nevertheless, and put on the restrictions. It does not go that far. All it says is, on the question of fact whether a country is threatened with a serious decline in its reserves, or has dangerously low reserves, on that fact the word of the fund shall be taken as the final word, but what happens after that is a question for the Geneva organization. Very briefly that is what is contained in this clause.

The VICE-CHAIRMAN: Are there any questions on this article, gentlemen? We shall pass on to article XVI, Subsidies. It is only a question of notification to the contracting parties, is it not?

The WITNESS: I might say a very brief word on that, Mr. Chairman. From time to time honourable members have asked questions about subsidies as to whether or not they are permitted. The only discussion of subsidies is contained in this provision here, and you will notice this provision does not prohibit the payment of subsidies. It simply says that in cases where subsidies have the effect of increasing exports unduly, or have the effect of perhaps harming the interests of another country, in that case the country must notify the other country of the subsidy which it is paying, and the likely effects it will have, and it must be prepared to consult with any party which regards itself as being injured. It does not go beyond that. You are required to consult with anybody who claims he is injured by your subsidy, and it is hoped that in the consultation you will perhaps explain your position and get an understanding of the situation. If you pay a subsidy and it has the effect of injuring somebody else that country will ask you to discuss it. Naturally you will discuss it with that country and see whether you can come to some understanding. If you cannot there is nothing here that says you must stop paying your subsidy. You can still go ahead and pay your subsidy.

By Mr. Quelch:

Q. It would be a violation of the principle?—A. It would be some violation of the spirit, perhaps, but there is no sanction applied against you if, indeed, you go ahead nevertheless.

Q. That would refer to a situation where the government might maintain a floor above the world market price, and then the government would export below the world market price?—A. And pay a subsidy in order to be able to sell below the world market price. That is the sort of situation where it arises.

By Mr. Jaenicke:

Q. What about the situation of the gold subsidy we are paying now?—A. Gold is not dealt with in this agreement. Gold is exempted as being a peculiar commodity which is not covered by this regulation. Gold is covered only by the regulations prescribed by the International Monetary Fund, and any questions arising about our subsidy would have to be raised by the International Monetary Fund. Gold is exempted from this whole Geneva Agreement.

By Mr. Blackmore:

Q. What shall constitute a serious breach? Is anything said in elucidation or clarification of that expression?—A. I should think that in the case where a country subsidizes an export and—

By Mr. Jaenicke:

Q. Can you name us an example?—A. Let us take an example. Suppose the United States subsidizes the export of wheat.

Q. Have we got a concrete example of some country subsidizing some commodity for the purpose of stimulating export?—A. Yes, I can take an example that has been in effect. The United States, as you know, has for some years been subsidizing the export of wheat because they maintain a domestic price which very often is above the world price. At the present time it is not, but for some years before the war the United States' internal price of wheat was above the world price. The United States wished to export wheat but obviously she could not export it if her price was higher than the world price. Nobody would buy it at that price. What they did was they subsidized the export price. They paid so much a bushel to anybody who exported wheat which enabled that exporter to sell his wheat at the world market price. Otherwise he could not sell it at the world market price because the world market price was lower than the domestic price. The United States' government made up the difference by paying a subsidy. That is a straight case of an export subsidy.

By Mr. Quelch:

Q. That might easily happen in Canada in the future because the government has more or less promised the farmer stabilized prices. Suppose that were done and the contracting parties objected would Canada then feel obliged to stop the subsidy in order to live up to the principle of the agreement, or would we not consider that necessary?—A. No, Canada would be required only to consult.

Q. I mention that fact because Mr. Abbott on one occasion in the House when we were discussing the austerity program—I forget what part it was—stated it was true there was an escape clause we could have used but Canada felt obliged to live up to the principle. I was wondering if the same thing would apply to this. Would we feel obliged?—A. There is not here even a definite principle stated.

MR. JAENICKE: The principle would be to increase exports. We would not subsidize our wheat to increase exports.

MR. QUELCH: No, but we might maintain a floor, and that floor might be above the world market price with the result it might be argued we were actually maintaining production at a higher level than we would have if we did not have that floor.

MR. JAENICKE: Yes, but it must operate to increase exports.

MR. QUELCH: If you stopped a decrease would that not be considered the same as an increase? You might actually stop a decline by maintaining a floor, and vice versa, and that would be an increase.

THE WITNESS: I might carry on my example and that may answer your question, Mr. Quelch. I explained the United States' government has at times before the war subsidized the export of wheat. The United States have had for a long time a certain rough proportion of the world market in wheat. It varied from a few per cent up to 20 per cent, and very rarely went above that before the war, of the world market in wheat. Suppose they subsidized their wheat to such an extent that they were getting 30, 40 or 50 per cent of the world market because of the subsidy. That would clearly be a case where they would be prejudicing the interest of other exporters, and that would be a case where other

countries could complain because by means of the subsidy they were forcing other countries out of the market. That would be against the spirit of this undertaking, but if they paid their subsidy in such a way that they did not push the others out and say they kept their proportion at a reasonable level, 20 per cent, or whatever it is, then there would be no complaint under this clause. It is simply to prevent countries that are particularly able to pay subsidies because of their superior wealth from pushing out all the small fellows who have not got as much wealth to subsidize with. That is the purpose of this clause.

By Mr. Argue:

Q. The importing countries could still levy anti-dumping duties?—A. Yes. Of course, on any commodities they really want they are not likely to put on anti-dump duties or countervailing duties. It is quite true if they wanted to put on a countervailing duty against a subsidy they could do so.

By Mr. Quelch:

Q. They could only do so if it were selling for less than the internal price?—A. Yes.

By Mr. Blackmore:

Q. Suppose we were dealing with a case like that of France before the war. France subsidized her wheat price so that her farmers received so high a price it paid them to produce their wheat and shut the rest out.—A. Yes.

Q. What would be the position of France?—A. Again there might be cause for complaint there. For the sake of argument suppose France had been producing 50 per cent of its requirements for many years and had been importing the other 50 per cent say from Canada. Suppose France said, "We are going to put on a big subsidy, and we are going to subsidize no matter how much it costs us until we produce 100 per cent of our requirements." It would mean we get pushed out of the market. We may say to France that we think that is not a very good thing to do from our standpoint, and we want to discuss it with you. That is the first thing you could do. You try to come to some understanding, point out where they are hurting us and how seriously they are hurting us, and try to get them to modify their position. Suppose they do not. There is nothing in here that says they must, but I think if they pushed it too far it would be against the spirit of this thing, and if it were really very very serious you could get the organization to take some action. I think it would have to be pretty serious in that case.

Q. On what grounds could France defend her action with good grace? Can't you say, for example, well, now we are in such and such a position, our position is in jeopardy and we therefore want to raise our own wheat?—A. That would be one step she could take, yes.

Q. And make herself self-sufficient; and in the case of France she could also say, we want to have markets for our manufactured goods within our agricultural areas; that would be accepted as an argument?—A. That could be an argument.

Q. And could she say, we want to be nationally self-sufficient in case of war or some great disaster?—A. Yes.

Q. All those arguments would be acceptable?—A. I do not say they would necessarily be accepted, but they would be arguments that could be made. It all depends on the circumstances. In certain circumstances the argument that they must be self-sufficient for purposes of war might be a very strong argument. As I say, it would all depend on circumstances.

By Mr. Isnor:

Q. While you are discussing the question of subsidies may I call attention to a situation which developed, one which I recall in connection with Newfoundland and the subsidy they paid on their fish in order to help them to get into the American market. That was about 10 years ago. Was that an example?—A. It was an example, yes; but, again, if they subsidize the exports of their fish to a degree which pushed the Nova Scotia fishermen out of the market that would be cause for complaint on our part. That would be against the spirit of this undertaking. They are not supposed to carry their subsidies to a point where they cause serious prejudice to another country. Now, if that were serious as against the Nova Scotia fishermen we would ask Newfoundland to give an explanation of the situation to us. If they proceeded to subsidize to a degree where our people were being pushed out of the market we would ask Newfoundland to modify its practice.

By Mr. Blackmore:

Q. How far back would you go, would you go back to 1926?, as being a traditional market?—A. That, would vary in every case.

Q. Should there be some base period on which to base these discussions?—A. Yes. We felt you could not write down a base period which would be applicable to every country under all circumstances because some commodities in certain periods of years might have a very abnormal situation, when the situation would not be a proper situation, so a statement was made that there should be regard to a representative period, and the question of what is a proper representative period is a matter of the particular circumstances affecting the commodity. You cannot lay down a general rule which would be applied over all time for every commodity because obviously there would be some years when a particular commodity might face an abnormal situation; so we said we must have regard to a representative period, the representative period being generally the closest period of years, something like three or four years in some recent period.

Q. So, now we come to the question of exports of surpluses; let us say a country is manufacturing flour and they reach a point where they are producing all of their own flour and then they begin to have a surplus for export. Let us assume that the country is developing beyond the point where it is self-sufficient in flour, and they would have to take the market away from somebody else in order to expand their own outlet. What would be done in a case like that?—A. There is nothing to prevent a country from exporting anything at any time as long as it does not force it by means of a special subsidy. Let us take the example you gave, the flour industry; they could simply go ahead and export that without government subsidy. They could expand their flour market as much as they liked. The only question which arises is when the exports are forced by means of a government subsidy. That is the only point on which question arises.

By Mr. Timmins:

Q. Supposing the country paying the subsidy on exports was a country like the Argentine, and suppose it got its subsidies to a point where Canadian and Australian wheat could not get into the markets of the country to which the Argentine was exporting; what would happen then in so far as Canada is concerned?—A. Of course, the Argentine is not a member of these organizations and you cannot apply any sanctions on a country not a member. But we could do this I should think, if a thing like that happened, Mr. Timmins; we would say to Argentina, what you are doing is very harmful to us, we wish you to modify it or to stop it, and if we don't succeed in that way—it may be that we have extended to them other privileges. We could say to them, if you were

a member of the Geneva organization we could not very well withdraw the most favoured nation privileges you now enjoy from you, but as you are not a member we can do that. For instance, we may be giving the Argentine most favoured nation treatment; we might be giving the Argentine some of the benefits under the Geneva agreement. Suppose they persist in their harmful attitude toward us we could say, well now, if you are not going to consider our interests we will not be considerate of yours, and therefore we will withdraw the m.f.n. treatment.

Q. I had in mind something in the nature of concerted effort or action on behalf of the club. Supposing something has happened to spoil our agreement?—A. That might be possible. We might discuss it with members who are signatories to this agreement. We might say to them, look here, here is something happening which affects each and every one of us who are members of this agreement, this is hard on us all; and there might be some type of concerted action taken.

Q. Say the members are all agreed.—A. That is could be done. If we take concerted action it would have far more effect than action by an individual country, and if several countries are affected by this thing that is what might be done. If they all took joint action it would be pretty effective.

By Mr. Quelch:

Q. Suppose the Argentine joins the Geneva club, although they are not members of the International Wheat Agreement—I understand that Australia, the U.S.A. and Canada are the strong supporting nations under that agreement—suppose she appeals our action through this Geneva agreement, and the Argentine has not become a member of the International Wheat Agreement; would England then be able to refuse to accept wheat from the Argentine, even though they were not members of the International Wheat Agreement?—A. Certainly.

Q. Would that not be discriminating against a member under the agreement?—A. That is right, but the Argentine not being a member of the International Wheat Agreement or this agreement—

Q. I mean if the Argentine had this but not the International Wheat Agreement?—A. That depends on the terms of the International Wheat Agreement. Where the terms of the International Wheat Agreement apply to any commodity the terms of that agreement can override the terms of the Geneva agreement.

Mr. TIMMINS: They would have to rather make new terms.

The WITNESS: They have to make new contracts. Where there is an international commodity agreement made between members of the Geneva organization and where it is not disapproved of by members of the organization, the provisions of that commodity agreement can override some of the obligations into this agreement.

Mr. QUELCH: But if the Argentine joined Geneva?

The WITNESS: Even in that case. They could object, but as they are not members of the International Wheat Agreement that is all they could do. There is nothing in this which would prevent countries from refusing to take wheat from the Argentine if she were not a member of the International Wheat Agreement, but that would depend upon the terms of the Wheat Agreement.

Mr. QUELCH: Even though the International Wheat Agreement had been signed after entering into the Geneva agreement?

The WITNESS: Yes.

Mr. BLACKMORE: Is there a stipulation in the Geneva agreement which provides that?

The WITNESS: Yes. I will come to that point a little later.

The CHAIRMAN: On article XVII, state trading.

By Mr. Jaenicke:

Q. Could we have a short statement on that?—A. Honourable members know what that is, of course; it is trading by governments which takes the form usually of contracts between governments; the contract of one country to deliver a certain quantity of goods over a certain period of time at a certain price. Our food contracts with the United Kingdom would come under state trading. The relevance of this provision is that where you have state trading it is very easy to set aside all undertakings of this agreement. Suppose a country grants a monopoly to a government board for the sale or purchase of any particular commodity—

Mr. QUELCH: Such as to the Wheat Board?

The WITNESS: Yes, the case of the Wheat Board in our own country. If the sale of a commodity is in the hands of one organization no one else is allowed to trade in that commodity and the possibility of making exclusive arrangements, bilateral deals, and discriminatory arrangements is very great because everything is tightly controlled. Similarly, in the case of an importing country—a buying country—if there is a monopoly given to some board which has exclusive right to import, clearly that monopoly can decide very directly just how much is to be imported. In other words, it can make a decision to import only 50,000,000 or 10,000,000 bushels or nothing at all, simply by the decision which it makes, and the rules about quantitative restrictions, no increases in tariffs, and all those rules, can be completely frustrated. By the granting of the monopoly no one has any right to import anything except the monopoly. The monopoly by its own decision can decide just exactly how much will be allowed in and that seems to me to be a most effective way of controlling imports regardless of the rules laid down.

Mr. MARQUIS: If our country made a contract to sell all our wheat to one country, have the other countries the right to object?

The WITNESS: Yes in certain circumstances. I will come to that in a moment, Mr. Marquis. Because of these possibilities which arise out of monopolies there had to be some rules laid down as to how they should operate, otherwise, if we did not have any rules at all, the monopoly could set aside every undertaking made under the agreement because it could determine by itself just precisely all the conditions under which imports should be allowed. That being the case, some rules had to be laid down as to how monopolies are to behave. They must behave in accordance with the general spirit of the whole agreement. This agreement does not rule out state trading; it recognizes state trading. The agreement does not say you must not have state trading, and it does not say whether it is a good thing or a bad thing. It leaves that to the decision of the country concerned. If a country wishes to have state trading or wishes to have monopolies that is up to the country and there is no statement made as to whether it is a good or bad thing or whether it should or should not be done. The agreement says that if you have state monopolies and have state trading you must behave in a certain manner. Coming to Mr. Marquis' question, the provision states that state monopolies must carry on their business in a non-discriminatory manner. State monopolies must not discriminate between countries in their operations.

Mr. JAENICKE: And they must act in accordance with commercial consideration?

The WITNESS: In accordance with commercial considerations, yes.

By Mr. Timmins:

Q. Suppose the United States says that they would like to have half of a wheat contract and that they can supply the wheat on the same basis—whatever the credit arrangements are. Is the United States then entitled to a portion

of that contract, that monopoly contract?—A. Let me put it this way? If a country is prepared to enter we will say, into a long-term bulk contract for wheat— and we will take for instance the United Kingdom—that country could offer certain terms—so much a bushel for so much wheat for so many years—and it must give an opportunity for any exporter of wheat to take those terms.

Q. Would that take the form of notice to the world that the country was going to enter into that type of contract?—A. That is right.

Q. Would Great Britain and Canada have had to notify the world in respect to the wheat contract they are going to make if the Geneva Agreement had been then in existence?—A. Yes sir, I think so.

Mr. QUELCH: That would not have been allowed at that time on account of the price.

The WITNESS: The United States could not have met our price but if the Geneva Agreement had been in existence and Britain was proposing to enter into such a contract, according to the spirit of this agreement she would have been required to give the United States, Australia—not Argentina because Argentina is not a signatory—an opportunity to bid on that contract.

Mr. BLACKMORE: Regardless of whether they could accept Britain's goods in return payment?

The WITNESS: Yes, but if she was in balance of payments difficulties she could use the escape clause.

By Mr. Timmins:

Q. We would have been at a disadvantage then, looking at the matter in a practical way, in January or whenever the last United Kingdom-Canadian contract was effected, because as we understand it, Great Britain did not want to take some things which we were more or less forcing upon her in order that she might have our wheat. If we had been required to notify the world that we were going to make some sort of a contract like this, some other nation might have said they would take the bacon part, and another country might say it would take part of the wheat and we might have had quite a bit of difficulty in getting a contract such as that implemented.—A. Of course, Mr. Timmins, when I said "notify" it does not mean that you have to negotiate your contract in a public place.

Q. No?—A. It would be silly and ridiculous to have a situation where the press and the radio were present and gave a blow by blow description to the world. That is not required here. What would be required in the case of a wheat contract would be this. If the United Kingdom is prepared to enter into a long-term bulk contract for wheat for a specific quantity, that country should let other countries know, countries which are interested in wheat, that she, Britain, was prepared to enter into such a contract. These countries then might say they wanted to hear about it—we might say that, Australia might say that, and so might the United States. That would give those countries a pretty good idea of what Britain was prepared to do and vice versa. Now when you get down to specific negotiations they do not take place in public. You do not have to tell every detail of the negotiations. What is required is that countries act in the way that an ordinary businessmen would act. Businessmen make long-term contracts. They have certain procedures to go through to obtain their raw materials and their other commodities and all that a country has to do under this agreement is to act in accordance with normal commercial considerations. The point here is that you must not make deals that discriminate against others. You must give others an opportunity.

By Mr. Argue:

Q. Could a state-trading corporation make the same kind of an offer on a bartering basis wherein they want goods in return for what they export?—A. There is nothing here to prevent that, provided that commercial considerations are followed.

By Mr. Timmins:

Q. Unless you get doing it on such a general scale that you really contravene the spirit of the Geneva agreement?—A. Yes. Suppose a Canadian company is interested in exporting pulpwood, let us say, and they go to Italy and say to the Italians, "We have a lot of pulpwood to send to you." The Italians will say, "We would like to have it but we have no money." The Canadian company may say, "Have you any hats? We can sell a lot of hats and you Italians are good hat makers, and if you will give us so many dollars' worth of hats, we shall undertake to sell them in Canada and you can buy our pulpwood." Such a transaction is perfectly within the provisions if it is a straight commercial transaction.

By Mr. Marquis:

Q. If the government proposed that she would sell a quarter of her production of wheat to another country, would we be obliged to notify all other countries? I do not refer to selling the whole bulk of the wheat, but only one-quarter or one-fifth of it?—A. I see what you mean: if we as a seller say that we stand ready to make a long-term contract in wheat with any importer who wants to buy it. If, as the result of such a contract, we prevented other people from getting wheat or their wheat supply was cut off and there was the possibility of their not getting their necessary supply, we should in the spirit of this undertaking notify the other people that we are doing this and give them an opportunity to bid on the supply we are trying to make available. We should not do this behind the scenes and suddenly one morning announce that all Canadian wheat was to be sold to one buyer.

By Mr. Marquis:

Q. If we offered to a country only that amount of wheat that she could ordinarily buy from us and which she ordinarily uses for her own consumption, I presume that it would not then be necessary to notify the other countries?—A. That is quite right. If we were making a deal which simply supplied to another country a supply that they normally would take from us on long terms that are reasonable, and if there would be no harmful results to other countries, there would be no objection to that whatever. That is something that is a normal business arrangement. But if we said one day out of the blue, "From now on all our wheat is going to be sold to one customer and all the other customers who formerly depended on our wheat can go whistling. We do not care about you any more. Thanks very much". That would be an arbitrary action and would be discriminating against the other countries.

Q. The criterion is discrimination?—A. Yes.

By Mr. Jaenicke:

Q. Mr. Deutsch, article XVII deals with non-discriminatory treatment on the part of state-trading enterprises. What provision is there for a state-trading enterprise in a country, for instance, where there is no state-trading in a particular commodity and they refuse to sell to the state-trading enterprise that particular commodity. Say they want to buy from a private company, and there is a monopoly in that country, is there any protection for the state-trading enterprise if the monopoly refuses to sell?—A. Well, suppose your state-trading

enterprise was trying to buy from another country and that country passed a law saying that a private enterprise could not sell. That would not be allowed.

Q. Say that the country did it on its own?—A. Well, in that case it would depend somewhat on the situation. If that enterprise is a monopoly or that state buyer has no other source to go to, well that gets into the realm of cartels, which under the Havana agreement is dealt with by a separate chapter. Such actions by cartels are not permitted under the Havana agreement. If countries are faced with such a situation where a private company or state-trading company is involved, there are remedies. The cartel chapters are not in this agreement. They will come in when the Havana Charter comes into force.

By Mr. Quelch:

Q. Whose responsibility would it be to take action against that cartel?—A. What would happen in that case is that the country in which the state-trading enterprise is located would complain to the country in which the private company refuses to sell, and that country would have an obligation under the Havana Charter to see to it that that private company did not refuse to sell to the state just because it is a state-trading enterprise. Now, if that country does not act, then a complaint can be made to the organization, and the organization then takes it up and asks that country to enforce its obligations. If it does not do so then the complaining country has the right to withdraw concessions. That is the usual remedy. There is a complete chapter on that whole subject of cartels in the Havana Charter.

By Mr. Jaenicke:

Q. It would be interesting to see how you would deal with such a situation as involves C.I.L. who cannot export anything out of Canada?—A. If that is the case and it does harm to somebody else, that is the sort of thing that is dealt with in the cartel chapter.

Q. You know the arrangement between the C.I.L. and the British government?—A. Yes, and if that arrangement results in harm to others, those that are harmed can request the country within whose jurisdiction it lies, to remedy the situation.

By Mr. Blackmore:

Q. It would be justified in requesting the amount which they needed for their own requirements, I presume?—A. Yes, that would be one of the factors in the situation.

Q. Nor to export to you more than you need for your own requirements?—A. That is right. That would be one of the things that would have to be considered, Mr. Blackmore. There is one question you raised a minute ago. I stated that the United Kingdom would have to give an opportunity to the United States to bid on any bulk contract, and you stated, "Where the United States would accept goods". Now, the way that would be reflected in the United Kingdom is that where the United Kingdom is unable to pay for the product in United States dollars, she always has recourse to the balance of payment clauses. Those balance of payment clauses apply to state contracts as much as they apply to private contracts. If the United Kingdom could not afford because of exchange reasons to enter into a contract for the purchase of wheat from the United States, she could plead under the balance of payment clauses in this charter and she would not be obliged to buy from the United States.

Q. I was thinking of instances that occurred in the last nine months in which the United Kingdom felt constrained to take books and tobacco from the United States that she could have been able to purchase from Canada or

Australia, and tobacco from Rhodesia. Now, the United Kingdom apparently considered themselves in constraint because they took those books and tobacco from the United States, which they certainly never should have done and neglected their own sources which they should not have done?—A. Of course, any country acting in such a way will have regard to all the consequences of its action. It might be that if the United Kingdom refuses to take the books and tobacco from the United States, it might create an unfavourable attitude in the United States. The tobacco and book interests might become hostile to the the United Kingdom. That might not be in the United Kingdom interests, and she would have all that in the back of her mind when she acts. Now, this particular agreement may not require her to take the books or tobacco, but, nevertheless, she may think in her own general interest that it would still be wise to do so. She may have acted on those considerations. Naturally, any country will act on all the considerations which she thinks are pertinent.

Q. Those actions on Great Britain's part were not necessarily the result of this Geneva trade agreement?—A. No, the United Kingdom may well have thought it wise to do so.

By Mr. Timmins:

Q. It is for this reason the United States can make a better bargain than we can, possibly, all over the world because there are so many things other countries have to get from the United States?—A. Well, it depends. A country, naturally, will take the over-all view. I assume it acts intelligently.

Q. Will they take an over-all view?—A. I assume it acts intelligently. If it acts intelligently, it will do whatever is in its own best interests in general.

Q. Would you explain the purport of subsection (2) of XVII?

The provisions of paragraph (1) of this article shall not apply to imports of products for immediate ultimate consumption in governmental use and not otherwise for resale or for use in the production of goods for sale.

—A. Yes.

By Mr. Jaenicke:

Q. Would that apply to war materials, for instance?—A. War materials are completely excluded from this agreement. Mr. Timmins is referring to a subject which was a matter of a great deal of discussion. This clause on state trading states that state traders must act in a non-discriminatory way. They must observe the ordinary commercial principles. They are not required to do anything more than a private enterprise is required to do, but they must act within ordinary commercial principles.

The question then arose, suppose a government buys for its own use. Governments, nowadays, buy a lot of things for their own use. Most governments, in their purchasing, do not adhere to this principle when they buy things for their own use. You know, in our own case, when our government buys articles for its own use, I think the contracts specify that these things must be obtained from Canadian sources. Now, that is discrimination. They cannot buy from foreign sources. Here, we are favouring our own supplies against foreign supplies.

This clause says, in the case of governments buying for their own use, they do not have to observe these principles. They may specify a preference for their own product.

By Mr. Blackmore:

Q. That is good manners, is it?—A. Good manners when governments buy on their own behalf.

By Mr. Timmins:

Q. This is in respect to imports, though?—A. But anything may result in an import. When a government buys anything for its own use, it can always get it abroad if it so desires. In most cases governments specify the supply must come from its own sources and it excludes imports. Where governments buy for their own use, this clause states they may discriminate in favour of their own producers.

The VICE-CHAIRMAN: Article XVIII, less industrialized countries.

The WITNESS: Shall I explain that, Mr. Chairman?

By Mr. Jaenicke:

Q. Yes, please.—A. This article is a very complex one and very lengthy. I shall try to boil it down into a few simple propositions. One of the principal difficulties in reaching this agreement arose out of the desire of many of the countries which are not highly developed to control imports so that they may protect their own industries and thereby promote their development. This agreement lays down a series of limitations upon the use of protective devices.

For instance, you may not use quantitative restrictions; that is quotas, embargos or prohibitions, to keep out imports. You may not increase a tariff you have bound. A number of countries which were undeveloped felt that they wanted to use quantitative restrictions. They wanted to be able to raise their tariffs even though they were bound in order to give protection to their own producers and to encourage their development. They said it was desirable, in the interest of the world as well as the interest of themselves, that development should be permitted, particularly in the undeveloped countries. So, they asked for a special article to deal with their particular case. This article was put in to meet their desires.

The article goes on to say that a country which wishes to promote development by protective devices which are not permitted in this agreement shall make representations to the organization setting out their program; what they want to do; what devices they want to use which are not permitted in this agreement and ask for an exception to allow them to use those devices.

Three possible methods are open to them. One is to raise a tariff which has not been bound. Well, of course, there is no difficulty about that. If you did not bind a tariff, you could put the tariff where you liked. There is no question about that. Any country can do that.

The second case is where a country wishes to use a tariff which has been bound. It wants to increase that tariff. If it has been bound, according to this agreement, that country is not allowed to raise it. In this case, a country can ask for permission to raise that tariff even though it has been bound. Such a country makes its case to the organization. They demonstrate it is a good thing for them to develop a particular industry. In order to do that a tariff must be raised, even though it has been bound. It is explained to the organization why the country wishes to do this. Then, the organization will examine the case and give its opinion as to whether or not a good case has been made out.

If a good case has been made out in the opinion of the organization, then it will go to the country which has received that concession resulting from the binding of the tariff. If a tariff is bound, it has been bound to somebody. It has been given as a concession to some country. The binding was asked for by some country. If the organization feels a good case has been made out, the organization will arrange for negotiations between the country which wants to raise the tariff and the country to whom the concession was made or group of countries to whom the concession was made. The organization will endeavour to get agreement between those countries regarding the unbinding of this tariff

It will try to facilitate agreement. When such agreement is reached, that country is permitted to raise its tariff according to the agreement; that is so far as the bound tariff is concerned.

There is a third method. I have already mentioned two; the case of the unbound tariff where there is no difficulty; the case of the bound tariff where they have to try to get agreement from the countries to whom the concession was given. The organization will endeavour to facilitate that agreement. Thirdly, there is a case where a country wishes to use quantitative restrictions, not a tariff. In other words, it may wish to put a quota on imports, or it may wish to put a prohibition on imports. In that case, they run into this rule which prohibits the use of quantitative restriction. Naturally they would not be allowed to go ahead and put on a quantitative restriction unless they got a waiver of that rule. Again the country will have to come along and make a case why it feels it must put on a quantitative restriction instead of a tariff, let us say. If they make their case and the organization agrees that a good case has been made the organization may grant permission to that country to put on a quantitative restriction. If the commodity concerned has not been bound in the tariff agreement then the organization by itself can give permission. If the item is bound in some trade agreement then permission must also be secured from the country to which that concession was given.

By Mr. Jaenicke:

Q. When the organization makes its decision is that a majority decision?—

A. A majority decision; that is right.

By Mr. Quelch:

Q. I take it the contracting parties by unanimous decision can waive any regulation in the entire agreement?—A. Yes, by a two-thirds majority they can alter any rule in this agreement. They can waive any obligation in this agreement by a two-thirds majority.

The VICE-CHAIRMAN: Article XIX, Emergency action on imports of particular products. Are there any questions on this article?

By Mr. Jaenicke:

Q. May we have a short explanation such as you gave on the last article, which was very good, by the way.—A. This is the article to which we have referred on previous occasions which gives the members an escape from commitments which they have made but which turn out to be very very embarrassing. As I have explained earlier in cases where you have bound your tariff you have bound it. It is fixed; you cannot increase it. Suppose that as a result of that binding, or as a result of the reduction something happens which you have not bargained for, and a great inrush of imports takes place far in excess of anything you had anticipated, so much so that your own producers are seriously damaged. This article says that in cases of that kind you may withdraw that concession. You are supposed to notify the other countries that are affected before you do so, and ordinarily you should notify them first before you act to see whether some other method cannot be worked out to deal with the case, but suppose there is not time to consult the other countries. Nevertheless you may go ahead and do so. Other countries may complain if they think you acted unreasonably and you did not have justification to act. Other countries may complain, and if the other countries' complaints are established to the satisfaction of the organization then you may be required to withdraw your first action. This is a sort of emergency escape clause to take care of results which prove to be very damaging and which you did not anticipate.

By Mr. Blackmore:

Q. Would this be an example of the application of such an arrangement? The small fruit growers, we will say, in southern Alberta raising raspberries and strawberries find their product will not mature until probably two weeks after a similar product matures across the line a few hundred miles. A restriction would have to be put on by the Canadian authorities to keep the United States' product from coming in and filling the cellars of western Canada to the detriment of our own producers. Such a restriction could be put on under this sort of anti-dumping— —A. First of all in our own case as to most of our fruits and vegetables we have in our tariff agreement left provision for the imposition of seasonal duties. In working out those agreements in cases where problems like that arose, we have written into our undertakings that we retain the right to impose for periods during which our crop comes on the market special seasonal duties to prevent flooding of our market during the period when our own produce comes on the market. That does not require us to go to this clause.

Q. Are we free to use seasonal prohibitions, too?—A. We would not be allowed to use prohibitions, but we can put on higher duties, seasonal duties.

Q. We could raise the duty to any— —A. No, the degree to which we can raise them as specified. We cannot go beyond a certain point.

Mr. McKINNON: I think, Mr. Blackmore, it means that the government of the day might say at that point that McKinnon made a bad mistake.

The WITNESS: We had in mind the sort of duties we would require at that time, and the right to impose such seasonal duties is specified in our agreement.

By Mr. Blackmore:

Q. And the rate to which we can impose them has been found adequate in times past? I am quite concerned to see that our producers are protected adequately.—A. I think in that case I should let Mr. McKinnon answer on that point.

Mr. McKINNON: Mr. Chairman and gentlemen, it is based upon the experience Canada has had ever since we first entered upon the system of imposing values on imported fruits and vegetables. That experience goes back over a number of years. The original values have been reduced from time to time under agreements, particularly with the United States, of course, because they were the great supplier. I think probably the best answer to the general proposition that Mr. Blackmore has put up is the fact that the committee asked the horticultural council representing the growers if they cared to make any representations before the committee, and I think their reply was they had no representations to make. Therefore I can only assume as the man responsible that the duties we recommended on a specific duty basis seasonally applied must be on the whole, in the opinion of the Canadian industry, satisfactory. I may be wrong but I did the best I could.

By Mr. Jaenicke:

Q. I have a question about subsection (b) of section 1 of article XIX. The influx of imports into a country may be from other countries not parties to the agreement, may they not?—A. Yes, sir.

Q. The way I understand it is the contracting party can request that the concession be withdrawn and the importing country shall be free to withdraw the concession. Can they be forced to withdraw the concession?—A. No—I am not sure whether I have your point exactly.

Q. Will you explain to me subsection (b) of section 1.—A. Explain that to you first—all right.

Q. I thought I understood it.—A. Oh, I see, subsection (b). That is the preference. That gets into another field. I see what you mean.

Q. For instance, a reduction of the tariff has the effect of an influx of imports to this country from a country which is not a party to the agreement and thereby a contracting party suffers.

Mr. McKINNON: I think this is the third party clause.

The WITNESS: This is the preference matter. This clause here refers to the situation that arises because a preference margin has been reduced. At Geneva there were two things done. Tariffs were reduced and bound, and preference margins were reduced and bound. It may occur sometime that a country which has lost a preference is seriously injured because imports from a third country, because the preference has been reduced, force it out of that market. The result of that may cause serious injury to the industries of the country that has lost the preference. In that case that country may request the country which has granted the preference to restore the preference.

Q. It cannot be forced.—A. No.

By Mr. Marquis:

Q. Can you give an example?—A. Yes, I will take an example. This is hypothetical. We did have a preference on canned salmon. We still have a preference, a reduced preference. Our preference before the Geneva agreement was 10 per cent and our preference now is reduced to 5 per cent. Suppose because of the reduction in that preference from 10 per cent to 5 per cent the United States producers of salmon took away the whole of the British market from us because of that reduced preference and forced us off the British market entirely; now, that would certainly have a serious effect upon our producers and we could go to the United Kingdom with this problem and ask the United Kingdom to restore that preference.

By Mr. Timmins:

Q. How could you get this preference back after you had lost it?—A. In this case the United Kingdom would not be required to do that but we could ask her to do it.

Q. And it would be permissible?—A. Yes, if we had a good case, if we show that we had a serious damage to our producers; not just incidental damage or necessary adjustment or anything like that; if we had really serious damage to our producers we could go to the United Kingdom and ask them to restore that preference and the United Kingdom could do so if she wished to.

By Mr. Blackmore:

Q. To make this serious damage just a little more realistic, could they call it serious damage if it was, let us say, 10 per cent?—A. I do not think 10 per cent would be regarded as serious.

Q. Well, would 20 per cent be regarded as serious damage?—A. It might be, yes. It depends on the circumstances. Again, Mr. Blackmore, in all these treaties you cannot write down a general rule which will specify every case. You can't do it. What is serious damage? It depends on the circumstances in that country. Suppose an industry is a highly specialized industry where the producers have no other source of income and they could not find anything else to do; there a loss of 20 per cent of its market may be very serious damage. But in another case let us say where an industry is such that it is not the only or principal income of the producer; or, say that only 10 per cent of the income of the producer is derived from that commodity and suppose there were plenty of opportunities to get income elsewhere, then 20 per cent in that case would not constitute serious damage. It all depends on the circumstances. That is why

I say that you cannot write this down as such and such a per cent applying in every case.

Q. On of the greatest dangers we face in all human relations is just a phrase like that "serious damage" where such words have a different meaning according to the people who use them.—A. That may be.

Q. If we were subjected to a loss of say even 7 per cent in respect of probably 15 or 20 of our commodities it might be very serious damage.—A. Whether it is very serious damage or not depends on the circumstances. In any event, the field of human relations cannot be reduced to arithmetical terms. That seems to me obvious. No matter how you try you cannot reduce human relation to arithmetical terms. There has got to be an element of judgment, there has got to be the element of the weight of different factors. You cannot reduce it to arithmetical terms.

Q. The people who have to decide on this matter are these contracting parties, spelt with capital letters?—A. Yes.

Q. And they consist now of the United States with one vote and 65 per cent of the influence.—A. One vote is all they have.

Q. But I said, 65 per cent of the influence. I think probably that is not extravagant.—A. I grant you.

Q. The other members of these contracting parties will be either members of the British Commonwealth—they will be the more important ones.—A. But this agreement is not based on 65 per cent influence by the United States, no matter what you say.

Q. In the final decision as to what constitutes serious damage that is a factor which would have to be taken into consideration.—A. All the factors would have to be taken into consideration.

By Mr. Quelch:

Q. When Britain was pressed for a change in this preference she would have to take into consideration what the effect would be on the United States—in other words, there might be repercussions, would not there be any advice from the contracting parties who either would back England up on that or vice versa? —A. That is quite true. Now, on that, I think you are getting into a field which is very relevant here. A subject like this one relates to this whole organization—the point is, that you are not left alone to deal with the big fellow. You have a lot of other little fellows around you and you have their understanding and their support if necessary. Without an organization of this kind you are always working with the big fellow alone. Mr. Blackmore, there is this simple alternative between having an agreement and having no agreement; if we haven't got this agreement we would have to have other agreements, and in the other agreements they would be bilateral agreements, if it were not for this, and we would have to deal individually with the big fellows. And so the question as to whether the United States is a big influence or a little influence seems to me is not terribly relevant. We do gain something, it seems to me, if we can get a document, an agreement in which all of us can agree and set up principles of action which we all agree to observe, the big and the small. I think that is an advantage compared to a situation where the little fellow has to deal singlehandedly with the big fellow.

The CHAIRMAN: Article XX, general acceptance. I suppose that is pretty well self-explanatory.

By Mr. Quelch:

Q. I wonder if you would explain 1 (g) of this article?—A. Oh, yes, 1 (g): This article states the circumstances when exceptions can be resorted to from the undertakings in this agreement, legitimate exceptions. One of the things in this is the conservation of exhaustible natural resources. Supposing you

have some kind of a resource which is threatening to run out and if no controls are put on the whole of the resource will be dissipated. In a case of that kind you may put on controls against the exportation of that commodity.

Q. Does that mean that we have to restrict our exceptions to the exhaustible products, and that we cannot do that unless we place full restrictions on the local market. Should not the local market be looked after first?—A. It depends on what interpretation you place on the word "drastic". If a limitation on this exception were not put on you might have this situation: Every country would say that they have to conserve their resources, and surely if you are using an exhaustible resource like a mineral or forest product you could always say that any exportation would be exhausting that resource and therefore you put on a control, but the reason for putting on the control may be purely for protective purposes. In other words, if you are going to take action really to conserve a resource you must take action in connection with your home consumption and in connection with the exports or else you cannot make a convincing argument that you are indeed conserving your resources. We may say that it is a drastic limitation but you will remember this agreement is for all countries. In our country we do not have cotton, we do not have sufficient oil, we have not got our own supplies of fuel oil—at least not sufficient supplies—we have not got many of the tropical fruits and vegetables and we have not got—in some areas—enough coal. We do not want these other countries to say they are going to stop export on only a trivial excuse.

By Mr. Quelch:

Q. If we were running short of a commodity would we not be able to curtail the exports to satisfy the home market?—A. Not solely for that purpose. If we regulate the home market we may restrict the exports.

Q. You could restrict the home consumption—but in order to curtail the exports you must curtail home consumption?

Mr. JAENICKE: Yes, we could say that persons would only be allowed 1,000 or 500 gallons of gasoline a year. We could allow them plenty but we would be regulating consumption.

The WITNESS: Yes.

By Mr. Quelch:

Q. It might be hard to convince the people of Canada that we were justified in instituting rationing for that reason?—A. You are proposing that we should ration the other nations.

Q. I suppose you could argue that way. The home market, however, should be the first consideration?—A. If you adopt that principle, where it is everybody for himself and the devil take the hindmost, then we will not get anywhere. We do not make agreements like that.

Mr. JAENICKE: That is in accordance with the general principle that raw materials should be available to all the world.

The WITNESS: Yes.

Mr. QUELCH: Is this to be based on the existing level of exports at a certain time?

The WITNESS: This is the way it would happen. Suppose you were worried about a certain natural resource and the fact that it was running out at a rate which was causing you concern. You would put a ceiling on what could be produced of that commodity in a year, regardless of whether it went for export or for the home market. You would say that it was not wise in your interest to take more than so much each year because if you were to do so you would injure your resources. You would put a ceiling on production of this com-

modity. You might say for example that we used to export 100,000 tons, and the domestic consumption was 500,000 tons in the past. There would be a total output of 600,000 tons, and you might say that you would not allow production of not more than 400,000 tons. You would go ahead and put a ceiling on the domestic market whereby you would not allow consumption of more than 375,000 or 350,000 tons, and for the export market you would not allow more than 50,000 tons. In other words you would be putting a limit on both home consumption and exports. That would seem to be the reasonable way to act. If you did not have that rule you would not be able to maintain the principle of freedom of access to the world's raw materials.

Mr. JAENICKE: And you would cause another war?

The WITNESS: Yes, and we would get into unilateral measures and we might say "to the devil with everybody else we will keep everything here". That would be all very well if we did not have to depend on other countries for some things. If we do not want those countries to behave in that fashion towards us, we must obligate ourselves not to act in that fashion towards them.

Mr. QUELCH: You would hope that rationing situation would not arise just before an election?

The VICE-CHAIRMAN: Now gentlemen, we come to article XXI.

Mr. JAENICKE: I move that we adjourn.

The VICE-CHAIRMAN: I was hoping that we could conclude article XXI.

Mr. JAENICKE: We are meeting tomorrow morning, are we not?

The VICE-CHAIRMAN: Yes.

Mr. JAENICKE: We could finish that easily tomorrow morning.

The VICE-CHAIRMAN: Then we shall adjourn until tomorrow morning at 10.30 a.m.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

May 21, 1948.

The Standing Committee on Banking and Commerce met this day at 10.30 a.m. The Vice-Chairman, Mr. G. E. Rinfret, presided.

The VICE-CHAIRMAN: We have a quorum gentlemen, we will proceed. Mr. Deutsch, please:

J. J. Deutsch, Director of Economic Relations Divisions, Department of Finance, recalled.

The VICE-CHAIRMAN: Gentlemen, when adjourned last night we were just about to consider article XXI, security exceptions. Will you explain in a few words what this is? That is page 54.

The WITNESS: Article XXI, security exceptions: In this article, Mr. Chairman, the trade and traffic in arms and ammunition and supplies necessary for military establishment are exempted from any of the provisions of this agreement.

By Mr. Jaenicke:

Q. Are we the sole judges of what we consider to be necessary for our own protection and security; or, is our judgment subject to review by the contracting

parties?—A. I think there, Mr. Jaenicke, the decision of the individual country in the first instance will be the important consideration. Of course, the thing may be abused, and in a case of that sort resort can be made to the contracting parties for interpretation, but I think they would give pretty heavy weight to the opinion of the country concerned.

Q. What would be the clause under which the contracting parties could object to our action?—A. There is a clause, clause XXIII, which covers a very wide number of items which I will explain in a moment?

Q. All right.—A. I would say here that the importance of the decision of a country would be very great, as to what it regards as its own security interest.

By Mr. Blackmore:

Q. Suppose we take this as an illustration; that we thought in order to be safe in the time of war we should develop our own oil supply, our own gasoline supply in Canada and took measures by subsidies or otherwise to develop our own oil industry so we would be nationally more self-sufficient; would that be considered as a security measure, do you think?—A. I doubt that, Mr. Blackmore, in our own circumstances. You had reference to the use of subsidies. There would be no objection to that.

Q. Or any other device which was necessary to encourage the development of our gasoline supply.—A. There may be some limitation on the kind of device you use. You cannot use quantitative restrictions. That would be clearly contrary to the undertaking. But if you used a subsidy, or if you used special government encouragement to assist exploration, or if you used direct government investment, and things of that sort, that would not be contrary to anything in this.

Q. Is not this article XXI worded as though it covered all manner of production in the whole country?—A. That is right.

Q. Then there is nothing in this treaty?—A. In so far as arms are concerned, and ammunition and supplies essential for military establishments, you can use any device; but whether you could develop your petroleum resources under this situation or not to a degree of self-sufficiency in our circumstances, that is another matter.

Mr. JAENICKE: Unless there was an actual state of war?

The WITNESS: Yes. If we were involved in a war then this article would be extremely wide in its application.

By Mr. Blackmore:

Q. Would we be permitted to make preparation for war in case we are likely to become involved in war?—A. Yes, we could do that all right.

Q. And is not gasoline one of the most essential items in military establishments of the present day?—A. Yes, that is also a very large item in ordinary peacetime use and it would be easy to abuse that thing by simply saying we would have to be self-sufficient in practically every resource we possess when what we really have in mind is being self-sufficient in oil for protective reasons. You could easily abuse it. If there was an actual state of war then I think we could do almost anything under this clause.

Q. Well, I think as things stand at the present time, we must recognize that one of the first considerations in preparation for war would involve national self-sufficiency in oil and gasoline supplies.—A. You see, you are carrying the argument to the absolute extreme. In any kind of war we get into, everything is war material, or practically everything except luxuries. If you used that argument, then presumably you could say that for your protection you needed to be self-sufficient in almost ever article; and, clearly, if you did that, you would make nonsense of this whole thing.

Q. Could you suggest to us a list of items that would be acceptable under this clause. Clearly, here once more we come across the bewildering vagueness of this whole thing. Can we not get this down to something concrete?—A. The article says, "relating to the traffic in arms, ammunition and implements of war directly or indirectly for the purpose of supplying a military establishment;". What is meant by arms is not too difficult. It is such things as military airplanes, atomic bombs—there is a separate clause dealing with that—guns of all sorts; ammunition, that is clear enough; implements of war—tanks and things of that sort. The article also covers materials or goods necessary for the purpose of supplying a military establishment.

Q. Surely gasoline is an A No. 1 priority in that picture.—A. Yes, but a great majority of our gasoline is not used for military establishments.

Q. You can't supply them without gasoline?—A. I am not disputing that; but if you carry through your argument far enough, Mr. Blackmore, practically everything except luxuries would come under your classification.

Q. My idea is— —A. And therefore if you carried your argument to its ultimate conclusion you could make a case for national self-sufficiency for almost everything on the ground of security; and that, of course, would bring to naught this whole agreement.

Q. The point I have raised is this, the article I have chosen is an A No. 1 item under that heading in my judgment, and is a commodity which should receive A No. 1 priority in any preparation for war. I asked you if that would not be an example of the articles in contemplation under this clause and you said that it would not be. I am beginning to wonder if the treaty means anything at all. It seems to me to mean almost nothing.—A. I am very doubtful whether national self-sufficiency in gasoline in our country would help us one way or another as far as war is concerned, because it is very hard for us to conceive of our being in a war without access to United States resources.

Q. Well, suppose we were in the position in which we found ourselves in the early days of this last war before the United States came in, when we along with the other nations of the British Commonwealth were at war and the United States was not. In a situation of that kind could the United States withhold gasoline from us on the ground that it would be supplying us with prohibited articles?—A. Have they ever withheld any from us?

Q. No, but the point is what would they do in future.—A. Well, they might, but I doubt very much if they would.

By Mr. Quelch:

Q. I take it that if some day atomic energy is to be commercialized the same thing would apply to atomic energy?—A. No, because atomic energy comes under a separate clause here. Atomic energy is specifically omitted.

Q. I mean to say, the same argument would apply to atomic energy as applies to gasoline?—A. If it becomes developed in the same degree commercially as gasoline, perhaps; but as far as this agreement is concerned atomic energy is handled under a separate clause.

Q. If at a later time there had to be a revision— —A. It could be dealt with separately.

Mr. McKINNON: On a particular commodity. Furthermore, sir, the answer to that is that we did not bind ourselves as far as tariff treaties are concerned.

The WITNESS: Yes, that is as far as the tariffs section goes.

By Mr. Blackmore:

Q. As far as quantitative restrictions are concerned, we could not use them to develop our own gasoline resources?—A. No, and I think in all of this you have got to have regard to the purposes and the general consistency

with the objectives of this agreement. If you carried that argument too far clearly you could bring every item of any consequence except luxuries under the national security clause, if you did that, carried your argument far enough, you could get justification for self-sufficiency in everything, and if that is the case, of course, you would bring to naught this whole agreement.

Q. I was wondering about an expression like this, Mr. Deutsch—I hope you will pardon me for asking too many questions, I was only asking them in my search for information—you notice in the general agreement at the beginning of this little pamphlet we have here, it says that the object of this whole Geneva Treaty thing is to bring about the development and full use of the resources of the world?—A. Yes.

Q. How in the world can we Canadians do that without developing our gasoline resources?—A. Of course, we are not the only part of the world, Canada is not the whole world.

Q. Then this treaty does not have any meaning at all?—A. It refers to the whole world, and not to Canada only. Canada is not the whole world. There are resources of gasoline in the rest of the world too; and by saying development of the resources of the world means the resources of all the world. I do not think you are developing the resources of the world if we can arbitrarily encourage the development of every high cost industry here while lower cost industries elsewhere in the world are prevented from developing by our action. That is not developing the resources of the world. I am making no reference here to the petroleum industry as such, or whether we should decide that the petroleum industry should be developed. I am talking generally now. This has reference to the development of the resources of the world, and we are included in that, of course, because we must have regard to the development of our own resources, but at the same time we must have regard to the resources of every-body else too.

Q. In gasoline I selected one of the items which is supposed to be the scarcest in the world, so scarce that we are almost to believe that there is not a sufficient supply for ordinary purposes. Surely, that indicates that it is one thing to which we in Canada should give attention?—A. Certainly.

Q. And particularly when we have such a tremendous amount of coal deposits in Alberta which could be processed into gasoline by a process similar to that which they used in Germany up to and during the last war.—A. There is nothing in this agreement to stop us from developing those coal deposits if we want to.

Q. By processing it in the same way as they did?—A. There is nothing to stop that. There is nothing to stop us in the development of our natural resources, and to do that it is not necessary to use restrictive devices. There is nothing to prevent us from giving special government assistance, either in the form of subsidies or tariffs. That is all permitted. All that is not permitted is the imposition of quantitative restrictions. That is not permitted.

Q. I see.

The VICE-CHAIRMAN: Are there any more questions on article XXI?

Article XXII, consultation—that seems clear to me.

Article XXIII, nullification or impairment. Are there any questions on article XXIII?

The WITNESS: Mr. Jaenicke, you referred a moment ago to the question by what method would things get before the contracting parties. This clause here in this article is the part of the agreement which deals with the whole question of complaints. You will notice that the description is very wide. It says:—

1. If any contracting party should consider that any benefit accruing to it directly or indirectly under this agreement is being nullified or impaired or that the attainment of any objective of the agreement is

being impeded as the result of (a) the failure of another contracting party to carry out its obligations under this agreement, or (b) the application by another contracting party of any measure, whether or not it conflicts with the provisions of this agreement, or (c) the existence of any other situation, the contracting party may, with a view to the satisfactory adjustment of the matter, make written representations or proposals to the other contracting party or parties which it considers to be concerned. Any contracting party thus approached shall give sympathetic consideration to the representations or proposals made to it.

Then it goes on to say that if the process of consultation does not succeed then the complaint is made to the contracting parties, and if as a result of discussion in the contracting parties no settlement is reached and the complainant is caused a hardship, the contracting party, by that I mean the complaining party, may withdraw concessions from the other party which is causing the harm. That applies to everything in this agreement. If any part of this agreement is not being lived up to, or somebody takes steps which are contrary to the interests of another party in a way which nullifies the undertakings of this agreement, then that party has a complaint to the contracting parties, and if the complaint is established the contracting parties may permit the complaining country to withdraw concessions. That applies to everything in this agreement. This has been called the sanctions clause. There are no sanctions in the ordinary term. The sanctions take the form of withdrawing concessions which the complaining member has made from the other party which is determined to be the cause of the trouble.

The VICE-CHAIRMAN: We now come to a point in which the committee are interested because it includes procedural matters in connection with the treaty. Article XXIV—territorial application—frontier traffic—customs unions. Now, gentlemen, we have already dealt at some length with the details of customs unions; are there any other questions on this article?

The WITNESS: I should explain, gentlemen, that this article was changed at Havana. As the article now stands in the document before you it has a provision for the formation of customs unions. Customs unions are an exception from the most favoured nation clause; therefore, if customs unions are permitted there must be provision in this agreement which allows customs unions to be formed. A customs union is an arrangement under which two or more countries agree to remove all tariffs and other trade barriers between themselves and to impose a common tariff against the rest of the world.

By Mr. Jaenicke:

Q. You said all; should you not have said substantially all?—A. Again, that is a phrase which was somewhat changed at Havana—"substantially all the trade". There may be some minor exceptions to that but for all practical purposes barriers must be removed on practically all the trade between the two countries.

Q. How can there be a customs union unless they are all removed?—A. There may be some peculiar situations in existence sometimes where some slight barriers would have to be retained.

Q. In the Benelux arrangement they have no reservations, have they?—A. They will have no reservations when the union becomes finally effective, but they do have to keep certain restrictions on throughout the transitional period. In other words, when they formed the free union that did not immediately remove all the barriers, but they have provision for the progressive removal of those barriers so that when the union is finally complete all barriers will be removed.

Q. Not all, but practically all?—A. That is the understanding now.

Q. Would you explain to us what the extent of the amendment as it relates to customs unions will be under the Havana revision?—A. I was coming to that. The extent of the amendment is this. In the text which is before you now the exception is only permitted with respect to a genuine customs union; that is, a union where two or more parties remove substantially all the barriers on the trade between them, and impose a common customs tariff against the rest of the world. In other words, all parties to the arrangement have the same tariff applying to all countries in all parts of the world which are not members of that union. Now, at Havana they widened that concept so as to make provision for the formation of what they called free trade areas. The Havana agreement will have provision for free trade areas as well as customs unions. A free trade area as defined in the Havana document is an arrangement under which two or more parties remove substantially all the tariffs between them but they retain independent tariffs as against the rest of the world. In other words, any two countries could get together and remove all tariffs from the trade between them—between those two countries—all tariffs which now exist; and then apply their own tariffs as against the rest of the world. Each would keep its own tariffs against third countries.

Q. In our own customs houses?—A. In our own customs houses. It is not quite as complete an arrangement as a customs union. In the case of a customs union, the two countries would have to adopt exactly the same tariff against third countries. That would be very difficult, particularly where you have had a somewhat different history with respect to tariffs. One country may have had a generally low tariff and another country may have had a generally high tariff, and in such a case it is difficult for those countries to get together and form a common tariff. A free trade area does not require them to do so. In a free trade area you remove substantially all the barriers between the two countries and you retain your own independent tariff against the rest of the world.

Q. Is there any provision as to how far this "substantial" goes? Could it develop into a preferential arrangement?—A. That is the danger. That is why the phrase is used that tariffs must be removed substantially on all the trade. The reason that the word "entirely" is not used is that there may be a peculiar circumstance that cannot be overcome and it would be a pity to hold up the whole works because of such a minor situation. If the departures from this are too great of course, the organization will not approve such an arrangement. You may not enter into an arrangement which is contrary to the conditions laid down. If you do, the organization may tell you to stop. That is how that is regulated.

By Mr. Quelch:

Q. Well, would the establishment of a free trade area on a wide basis between contracting parties result in a complete breakdown of the whole proposal of the most-favoured-nation agreement?—A. Of course, if the free trade area or the customs union idea becomes very widespread, then the importance of the most-favoured-nation clause would decline very much, because it is clearly an exception from the most-favoured-nation clause.

Q. To what extent in the free trade areas has this been established?—A. So far there is no set-up that I know of. In the past the free trade area was not recognized as an exception to the most-favoured-nation rule. This is a new exception.

Q. There is nothing to prevent Canada and the United States from wiping out all tariff agreements?—A. Under this clause Canada and the United States could enter into an agreement removing all the tariff barriers between them but allowing each of them to have their own tariffs against the rest of the world.

Q. And the British preference would disappear so far as the United States is concerned?—A. Yes, but the British preference could still be maintained so far as the rest of the world is concerned under this clause.

The VICE-CHAIRMAN: Next we come to article XXV, "Joint action by the contracting parties". I take it that this deals with the "one-man, one vote".

The WITNESS: Yes. Paragraph 3 reads as follows:—

Each contracting party shall be entitled to have one vote at all meetings of the contracting parties.

The VICE-CHAIRMAN: And paragraph 4 goes on to discuss majority votes

The WITNESS: Yes, it reads:—

Except as otherwise provided for in this agreement, the decisions of the contracting parties shall be taken by a majority of the votes cast.

There are a few cases where other majorities are sufficient. For instance, if any obligation under this agreement is waived, that requires a two-thirds majority.

The VICE-CHAIRMAN: Article XXVI, "Acceptance, entry into force and registration". Are there any questions to be asked on this article?

Then we come to article XXVII, "Withholding or withdrawal of concessions." Would the committee like to have an explanation of this?

Mr. BLACKMORE: Yes, I should like to have an explanation of this article.

The WITNESS: This covers the possibility of some country withdrawing from this agreement or not becoming a member of this organization. You may have negotiated some tariff concessions with a party which has withdrawn and to which you do not wish to extend such concessions any longer. Now, under this article you may withdraw the concessions that have been made to the country which is no longer a member of the organization. It is a reasonable provision. If somebody ceases to be a contracting party, others who have made concessions to that country may withdraw those concessions.

The VICE-CHAIRMAN: Next is article XXVIII, "Modification of schedules". Are there any questions?

Then we come to article XXIX, "Relation of this agreement to the charter for an International Trade Organization."

The WITNESS: I believe we went into that at quite some length before.

The VICE-CHAIRMAN: Yes, at quite some length.

Now we come to article XXX, "Amendments". Are there any questions on this?

Next is article XXXI, "Withdrawal".

Then we come to article XXXII, "Contracting parties". And to article XXXIII, "Accession". I understatnd that there has been a modification of this in Havana.

The WITNESS: Yes, it is a technical matter and I do not think you need spend any time on that, Mr. Chairman.

The VICE-CHAIRMAN: Next is article XXXIV, "Annexes".

The WITNESS: We explained this when we went through the article earlier. There are annexes to previous articles.

The VICE-CHAIRMAN: We come now to page 88, "Protocol of provisional application of the general agreement on tariffs and trade." Are there any questions on this?

The WITNESS: This is the protocol under which countries may undertake to bring this agreement provisionally into effect. This is the one under which we have extended our tariff concessions as of January 1 of this year.

The VICE-CHAIRMAN: Gentlemen, we have come to the end of the study of this agreement. Are there any other general questions that you would like to ask either Mr. Deutsch, Mr. McKinnon, Mr. Kemp, Mr. Couillard or any one of the officials that are here and who are representing the various departments?

By Mr. Quelch:

Q. I wonder if you would mind referring back for a few minutes to article XX, clause (g), that we were discussing last night just before we adjourned. That clause relates to the conservation of exhaustible natural resources. Does that refer chiefly to the exhaustible natural resources of all the parties rather than any one nation? Say one nation's supplies appear to be becoming exhausted and it seems necessary for them to restrict their exports of certain commodities, might it not be possible under this article for some other contracting party to increase their exports in order to make it possible for the first nation mentioned to reduce its exports?—A. That is possible under the article.

Mr. Blackmore:

Mr. Chairman, I should personally like very much to have Mr. Deutsch give us an effective outline—perhaps not today but at a subsequent meeting—of the E.R.P. or Marshall plan. He told us where we could find it, but I do not think I would have the time to read it. I think it would be proper and fitting for Mr. Deutsch to give us an outline on this subject. There is a great deal of discussion in the press concerning this provision or arrangement.

The VICE-CHAIRMAN: I doubt very much whether that comes under our order of reference, but I agree with you that it would be most interesting.

Mr. BLACKMORE: I am of the opinion that it has an important bearing on the whole matter of trade. After all, it seems to me that in spite of what we may think of the individual items of this agreement, the last test of it is: will it work and is it working? Is it accomplishing the objective it has set out to accomplish, and are there reasonable grounds to presume that it will do so? If it will not work probably we ought to revise our way of attacking the whole question.

The VICE-CHAIRMAN: I am in the hands of the committee.

Mr. BLACKMORE: Take, for example, what is going on at the present time. Up to the present time have any nations endeavoured to adopt what is outlined in the Geneva Trade Agreements? Have those nations had any increase of advantages such as are promised or foretold? Has this thing so far accomplished its objective or has the result been the opposite? My impression is that it has been just exactly the opposite to every one of these objectives. My impression is that Great Britain has been put into a strait-jacket and put on the torturer's rack. It seems to me that the struggle she is now having in order to establish some sort of understanding with western European powers, indicates that she is doing so as the result of being shut off from her normal intercourse with the empire by imperial preferences. If this is not indicated, what is indicated? It seems to me that before I, as a member of this committee, can recommend to the House of Commons that we should adopt this, we ought to have some evidence that it is succeeding. It should be something that is worthy of our consideration.

The VICE-CHAIRMAN: I agree with you, Mr. Blackmore, that it would be most interesting, but I am in the hands of the committee as to whether we should engage in that or not.

Mr. QUELCH: Would Mr. Deutsch be in a position to tell us about the various conditions that apply to countries other than Canada? I refer to the

conditions attached to the E.R.P.; the commitments that countries have to make to get benefits under the E.R.P. Would Mr. Deutsch be in a position to explain those other than in regard to Canada?

The WITNESS: Well, Mr. Quelch, there are no conditions so far as we are concerned.

Mr. QUELCH: We have heard a lot about certain conditions that have applied to different nations in order that they may benefit of E.R.P. I believe probably that a lot of those are wrong and I am wondering if you could clarify them. I am not suggesting, however, that you do so now.

The VICE-CHAIRMAN: I should like to have the opinion of the committee as to whether we should go into this or not.

The WITNESS: I am willing to do anything that the committee would like me to do.

Mr. BLACKMORE: I do not want to bring the committee into any extra work, but I am deeply concerned about this matter because the whole future of this dominion might be involved here. Our future trade relations with Great Britain and the British Empire could be seriously affected. Just as an illustration now of the type of thing that gives me trouble, I want to tell the members of the committee that in the May 17 issue of the *Christian Science Monitor*, there appeared a rather extended article on what the British are doing in respect to the E.R.P. They are asking that they be required to take less tobacco and be given the privilege of taking more steel, which indicates that pressure is being brought to bear by the United States in their administration in connection with the E.R.P. in order to make the British accept tobacco and canned goods, fruits and all that sort of thing, when what the British really want are essential raw materials in order to enable them to establish themselves on a sound commercial basis with the world. This seems to me to be quite at variance with the impression that I got from what Mr. Deutsch told us last night. I am quite sure he told us exactly what his impression was, but this seems to be a very serious situation, does it not? It looks as though the E.R.P. is being used to further enslave Britain rather than help her out.

The VICE-CHAIRMAN: I shall take your suggestion as a motion, Mr. Blackmore, seconded by Mr. Quelch, and I shall ask the members of the committee to vote in favour or against.

Mr. QUELCH: I should not want to press this at the moment. Though I am very interested in knowing about E.R.P., I asked the Minister of External Affairs about it last year and he stated that the matter was confidential and, if so, I would not want to ask Mr. Deutsch to deal with it here.

The VICE-CHAIRMAN: My problem is not whether it is confidential or not. My only concern is whether it is covered by our order of reference. I do not think it is.

Mr. QUELCH: Could we have a motion to extend the order of reference?

The VICE-CHAIRMAN: The order of reference reads as follows:

That the subject-matter of the general agreement on tariffs and trades, including the Protocol of Provisional Application thereof, together with the complementary agreement of October 30, 1947, between Canada and the United States of America, be referred to the said committee.

Mr. MACNAUGHT: Mr. Chairman, would you mind repeating the motion of Mr. Blackmore.

The VICE-CHAIRMAN: The suggestion has been made that we ask Mr. Deutsch to give us an outline of the effect of E.R.P. on this agreement.

Mr. BLACKMORE: My general idea is that in the last analysis we should judge this trade agreement by the extent to which it has accomplished the

objectives which it presumably sets out to do. If it has not accomplished those objectives, certainly there must be something wrong somewhere. As an example of the extent to which it is accomplishing its objectives, it seems to me that the E.R.P. would be pertinent to this matter.

Mr. QUELCH: I am not prepared to ask Mr. Deutsch something which the Minister of External Affairs thinks is confidential. That would have to be cleared up first.

The VICE-CHAIRMAN: We have to decide whether we shall go into this field or not.

Mr. MACNAUGHT: I would be guided by what Mr. Quelch has said.

The VICE-CHAIRMAN: Before we ask Mr. Deutsch whether it is confidential or not, we should decide whether it is within our order of reference. The motion is before the committee and I shall ask all those in favour to raise their hands.

Mr. BLACKMORE: Mr. Chairman, before you call for a vote, may I suggest that even though the E.R.P. as a whole may be a confidential matter, would not the mere fact that we find extended articles in publications such as the Christian Science Monitor, dealing with many aspects of the question, indicate that a good deal is not confidential. Could we not hear about that part which is not confidential?

The VICE-CHAIRMAN: You are discussing the proposed second motion. The motion before the committee now is does your motion come within our order of reference. If this motion is allowed to pass we shall discuss the confidential feature of it.

Mr. MACNAUGHT: In connection with that I think you should make a ruling that it is either out of order or in order, then we can appeal or sustain your ruling.

The VICE-CHAIRMAN: I am in the hands of the committee. My feeling is that it is out of order.

Mr. MACNAUGHT: I think you should so rule.

The VICE-CHAIRMAN: Then I so rule.

Mr. HAZEN: Would you mind reading the order of reference, again, please.

The VICE-CHAIRMAN: It reads as follows:—

That the subject-matter of the general agreement on tariffs and trade, including the Protocol of Provisional Application thereof, together with the complementary agreement of October 30, 1947, between Canada and the United States of America, be referred to the said committee.

Mr. HAZEN: It does not say for what purpose.

Mr. QUELCH: Could we apply for an extension of the terms of reference to include the E.R.P.?

The VICE-CHAIRMAN: I doubt whether that comes under the resolution before us at present.

Mr. HAZEN: If these matters were referred to this committee have we not the right to ask what effect some other plan or scheme will have on this? What effect has the E.R.P. on this plan? If the matter is referred to us in a general way, have we not the right to inquire into it?

Mr. MACNAUGHT: I submit that the discussion is entirely out of order. The Chairman has made a ruling and it should not be debatable. If the ruling carries it is the end of the matter.

Mr. JAENICKE: What is the motion?

The VICE-CHAIRMAN: The motion has been ruled upon, Mr. Jaenicke, that this is not in order. If anybody wishes to question the ruling, now is the time to do so.

Mr. JAENICKE: We should know what the motion is in order to decide whether the ruling is right or wrong.

The VICE-CHAIRMAN: The motion is whether we should go into a discussion of the E.R.P., its relation with the agreement and what effect it has had. Now, the ruling is that this motion is out of order because it is not within the order of reference. If there is no appeal from this ruling, and I do not think the ruling is debatable, we shall proceed.

Mr. BLACKMORE: If you are finished with this I should like to ask you a general question bearing on the whole matter. It has something to do with what we were discussing last night. I should like to ask Mr. Deutsch whether he would say that the overall object of the United States administration in these agreements and negotiations has been to clear the way for the little nations in order that they may get a greater degree of international and commercial and financial security through collective co-operation with other little nations; or has the overall United States object been to obstruct little nations in their attempt to obtain financial and commercial protection through co-operating with other little nations?

The WITNESS: Mr. Blackmore, it is very difficult to assess the motives of another country, but so far as we know—and I think my colleagues will agree with me on this—the United States showed a very commendable leadership in this field of trying to establish better trade relations between our countries. In that leadership she was prepared to make her own contribution. It was a great contribution and it was manifested by the fact that she was prepared to make substantial reductions in her own trade barriers, and she has made them in the Geneva Agreements. That is the evidence we have, and if one judges that in the light of what has happened in the past and the difficulties we were all in in the 1930's, it would seem that it is a hopeful sign. It would seem to me also to be an indication of praiseworthy motives and not the contrary.

I am sure the United States has certainly no desire to create an institution for the prime purpose of hindering and of making things more difficult for the small nations. I am sure that is not any part of her intention.

By Mr. Blackmore:

Q. As an illustration to help you to get an idea of what is going on in my mind, the United States was certainly acting to destroy the British preferences, was she not? She specifically stated that she wanted to do that?—A. You must remember that one of her purposes was clearly to bring about a reduction in all forms of discrimination. In the United States the British preference has been regarded as a form of discrimination. I am not saying that that was a correct interpretation. They have carried that thing to a fetish many times; but in requesting a reduction of the British preference she did not demand unilateral reduction. She said, "We are prepared to negotiate with you for a reduction of British preference and we will make concessions in return for any reductions you make in the British preference"; it was not a one-way proposition.

And furthermore, the countries that went into the negotiation were not obliged to reduce their British preference unless they were satisfied that what they were getting from the United States was adequate compensation for the reduction. You were not obliged to do it. Consequently, if any preferences were reduced they were reduced in return for concessions from the United States which the countries themselves considered were adequate and mutually advantageous. Nothing else was required. So if any preferences were reduced they were reduced because the countries got concessions back which they thought paid for those reductions or more than paid for them; if they thought they were not being adequately compensated they were not required to reduce the preferences.

There was no one-way obligation imposed on nations at all; and if in the negotiations you felt that you were not getting adequate compensation from the United States for the reduction you did not make those reductions in preferences.

Q. I am quite interested in this question, Mr. Deutsch. The United States has been one of the great offenders in the world in this respect, in that she might make a concession in the tariff and take away all the advantage which would naturally derive from that concession by hidden means of obstruction. For example, suppose she made a concession in favour of blueberries coming in from Canada. She could implicitly or explicitly instruct the officials having to do with the admission of those blueberries to hold them up on the tracks for two weeks or three weeks while they were being inspected, during which time the blueberries would all spoil, thereby rendering it impossible for the blueberries to go in.

It is a question of the device; and this has been used against Canada. The United States could do something like this; she could say, "Now, we are going to admit a given class of goods from Canada into the United States," and then—we have had this sort of thing happen—the company having those goods for sale to a given United States importer delivered a certain amount of goods under the agreement, under the promise, and after the goods had gone into the hands of the United States importer and had been distributed in the United States and in many cases were resold, the United States officials have discovered that they have made a mistake in classifying those goods and that the goods actually should have been classified under another item which would have increased the duty, and they have actually gone back and caused a great deal of inconvenience and embarrassment to both the exporter and the importer.

Now, those are merely two of the devices which the United States have commonly used. What I am wondering is this: did the United States make any kind of commitment to the effect that she would refrain from the use of these hidden devices, from obstructing our trade and taking away from us the advantages which would apparently be natural from the reductions she had promised us?—A. Mr. Blackmore, the example which you have given may have occurred in the past. One of the main purposes of this agreement is precisely to prevent that sort of thing from happening in the future; that is why countries have gone into this agreement. It is precisely to stop that sort of thing; that is what it is all about; and the commitments which countries have made in this agreement will not allow them to continue to use such indirect devices to provide protection.

Q. Would you be in a position from your information as an official of the department to tell whether or not the United States has been refraining from using these indirect methods of obstruction to our goods since the Geneva trade treaties were imposed?—A. The Geneva trade treaties, as I mentioned, are not now in full effect; they are only in provisional effect. When the treaties become ratified, then they will have to live up to all the obligations in this agreement, and they would have to change their legislation to bring their legislation into harmony with the obligation in the agreement.

Q. I am told that many of these devices are not the result of legislation; they are rather the result of administration.—A. It does not matter whether they are the result of legislation or administration, they could not be continued under this agreement. If they are purely administrative the matter can be dealt with directly. The trouble arises when they are matters of legislation and a change is required, and that change of legislation will have to be obtained in the Congress if they are going to live up to the obligation of the agreement. But that will come when the agreement is ratified. The legislation will have to be changed to conform with the obligation of this agreement. Some of the practices which you have mentioned do arise out of United States legislation, and we have suffered from them in the past. Now, one of the objectives that

the Canadian delegation had at Geneva—one of the main objectives—was to secure a change in the United States practices. That was one of the prime objectives of the Canadian delegation and other delegations; and we took great care to see that the right kind of provisions were written into this agreement which would remove some of those indirect arbitrary devices which have harmed us in the past. That is one of the things that will come out of this agreement. If we have not this agreement I do not know how we could do it otherwise; because if we have not an agreement of this kind by what means can we secure a change in United States practice? That is a matter for their own determination, short of this agreement; so this agreement is designed to get those practices changed and more into line with what we consider advantageous to both of us. That is one of the things we have tried to accomplish.

Q. The suggestion comes into my mind that since the British preferential organization, including the sterling area, was so effective that the United States looked upon it as a means of industrial aggression we probably could have followed the line of greater development of Imperial preferences and obtained the results more immediately than we will obtain them through this Geneva trade agreement.—A. That, Mr. Blackmore, is a matter of opinion. People may have their opinions on that question: whether we ought to have gone along the line of increasing the development of British preferences or along the route of this agreement. But this you should keep in mind, that any further development of the British preferential system would have created opposition in the United States and would have created, perhaps, retaliation. Whether or not the consequences of that are such that we should have faced them is a matter of opinion. My own feeling is that if we are going to achieve the kind of international relations in the world which we want to see it would be very undesirable to create a situation which would result in a trade war between the British commonwealth and the United States. I can think of nothing that would be more disturbing and more harmful than that. I think it is much better to take the route of co-operation between these English-speaking peoples, which was attempted in this Geneva document.

Q. The co-operation is largely on the side of the British peoples, is it not? —A. No, not entirely. As I have said many times, the leadership in this whole project came from the United States, and the British government has co-operated with them. Now, in an earlier statement, Mr. Blackmore, you said that as a result of this agreement the British tied themselves hand and foot and they are now suffering because they so tied themselves. Well, I would think the best answer to that is that this agreement has been approved by the British government; it was approved by the British parliament; and I think when it comes to judging British interests I would take the word of the British government and the British parliament. I think they have a knowledge of their own interests, and I think they would not deliberately go into an undertaking which was contrary to their own interests. I have too high an opinion of the intelligence of the British people and the British parliament.

Mr. McKINNON: I think the United Kingdom is the only country that has approved.

The WITNESS: That is right. The agreement was approved by the British parliament and it was approved by the British government. I would think that they have a pretty good knowledge of what is in their own interest, and I would take their word for it, I think.

By Mr. Quelch:

Q. And you have stressed the point that the nations would not sign this agreement unless they considered it to their own advantage?—A. Yes.

Q. On the other hand, could you say whether or not financial assistance from the United States has been made contingent upon nations becoming a party to this agreement?—A. No.

Q. Are you certain of that?—A. In other words, that financial assistance is made contingent upon the acceptance of this agreement?

Q. And the Bretton Woods agreement. If a nation becomes a member of this agreement it has become a member of the Bretton Woods agreement. With regard to the big loan made by the United States to Britain, that was passed by parliament, but you remember that the Chancellor of the Exchequer said they could not help themselves, they had to have the financial assistance. He said, "Whether we like the point of United States non discrimination policy, we have got to have this assistance." So, you can hardly say they chose of their own free will. It was economic pressure which forced them to accept the loan. I wonder if the same thing applies to the Bretton Woods agreement and in this agreement?—A. They got their financial assistance before this was completed.

Q. The loan, yes. Now, there is other financial assistance under the E.R.P.—A. When this agreement was concluded there was no understanding that there would be any E.R.P. This was concluded in September of last year, and at that time the E.R.P. discussion was just beginning. The two things were not tied together in that sense, that if you take one you must take the other. There was some connection—obviously there was—between all these things because all these things are inter-related; the E.R.P., this agreement, the loans that have been made, our own loans that have been made, have all been related to the overriding purpose of re-establishing world economy and reconstructing Europe. These are all parts of a general program, and in that sense they are all related, of course; but to say that countries are required by means of economic pressure, or are forced into this agreement is, I think, straining the thing too far; because certainly in our own case we are not forced. I do not think the Canadian government—I am speaking as a civil servant—I do not think the Canadian government has signed this agreement because it is forced by reason of financial considerations to sign it. I am not aware of that.

Q. We are on a different basis.—A. Yes. I am saying specifically that the United Kingdom and many other countries—countries which have no such financial dependence—have signed this agreement because they felt it was advantageous for them to do so. I do not think you can find one single instance where countries have signed this agreement for any other reason than that they felt it was in their general interests taking everything into consideration.

By Mr. Blackmore:

Q. You were giving the fact that because the British accepted this as pretty good evidence that it was a good agreement?—A. I am saying it was evidence that the British were satisfied.

Q. Mr. Quelch's idea is conveyed in this fact, that the British undoubtedly accepted the Washington loan agreement, which was greatly to their disadvantage, in order to get a big loan after the war. Article IX follows out of the Washington loan agreement, doesn't it?—A. I would not say that without qualification. The United States quite rightly gave them exceptions from it. They did not hold them to the letter of that article. When they came along and said we are having difficulty in living up to its terms, could we have a little leeway with regard to it, they gave them that leeway.

Q. Was it not recently stated in Britain that one of the things which caused the death of the late Maynard Keynes was the tremendous amount of work that he put into trying to get better conditions for Britain in connection with that?—A. Of course, I am not saying that Britain got all the concessions which they hoped to get. You must remember that for these things somebody has to

put up a lot of money and money does not grow on trees. Some taxpayer has to put it up, and the taxpayer is not in the habit of just pouring money out without any questions being asked. They are not just in the habit of doing that. Naturally, when such large sums of money are going into loans of that kind they are going to ask certain questions. That is only common sense, to ask about how the money is going to be used; whether or not it is going to produce the results which it is supposed to produce. Certainly there was an understanding reached on these matters, the people who put up the money naturally asked these questions. How else were they going to put up the money? Money does not grow on trees, somebody has to supply it. It may be that the conditions may be too onerous in some cases. That is a matter of opinion. But simply to ask a country or a nation to give up great sums of money raised from the taxpayers and just pour them out without any questions being asked at all, that seems to be completely unrealistic.

By Mr. Fleming:

Q. Whatever may have been said about the terms of the U.K.-U.S. loan agreement of 1945—we asked some questions about that in 1945 in this committee—the fact remains that you have an entirely different situation now; and perhaps it is caused by just such features of that loan agreement as Mr. Quelch has referred to; that is, we had a situation develop out of which we are now emerging.—A. Perhaps.

Q. France is not well enough to consider that purpose; and, in any event, we have I suggest an entirely different situation now under E.R.P.—A. With that I agree.

Q. And when we are discussing these agreements we have to take things on balance. We may not like everything in them. I don't suppose the Canadian representatives liked everything in the agreement; as a matter of fact, they have told us so here—but you have to take things of this kind on balance, and so far as the British authorities in their relation to the agreement are concerned, they have evidently taken it on balance.—A. That is right.

Q. And I suppose, looking at it from that point of view, from the point of view of the document before us and from the point of view that they are trying to restore worldwide trading relationships, we just have to take it on balance.—A. I think that is very true. I think one thing we have to remember, and I think you are referring to that Mr. Fleming, is that there were some serious miscalculations following the conclusion of the war with respect to the degree with which recovery could take place. I think there was a tendency to be over-optimistic as to how quickly Europe could be restored and what assistance is required to restore Europe. I think there was an over-optimistic attitude in that regard. An also there was an over-optimistic attitude as to how much could be expected from that particular loan. As it turned out it has been proven that the assistance was inadequate and that recovery was much slower than people had thought it would be. That is where the mistake was made. In the light of hind-sight now we see that the problems were much more difficult than we had anticipated, the difficulties of reorganization were much greater and it would take a much longer time. In that sense the results of the loan have been disappointing, but E.R.P. now has come along and recognized the situation which exists today, that lots more has to be done in order to bring about that recovery. The E.R.P. recognizes that situation. As you were saying, new situations have arisen, and one of the results of the new situation which has developed is the E.R.P.

Q. The biggest feature in this situation is the generosity on the part of the United States. There may be an element of self-interest in it, but nevertheless the generosity of the United States in the whole situation finds expression in E.R.P.—A. That is right. Here is a country which has been prepared to give

very large scale assistance, most of it or a very large part of it given freely. In the last analysis most of it is given free because they realize that there is no use fastening debts on to these people unless or until they can re-establish their means of livelihood. They have extended very substantial aid on such a large scale in the hope of helping to rebuild and restore the whole life and fabric of European economy. That is what E.R.P. means. I do not think, as Mr. Fleming has said, that it is entirely without some element of self-interest, but I suggest that that element of self-interest is not entirely deplorable. As I said the other day, they know they cannot live in this world the way they would like to live if others are in a state of abject poverty, unemployment, low standards of living, and so on. They were prepared to take a long look at that and give long term assistance to bring them up to the state of production and a state of life and standard of living which will be advantageous to all countries, including the United States. There is of course, the element of self-interest in it, but I do not think it is an objectionable self-interest.

Mr. QUELCH: There are also political features involved.

The WITNESS: There are also very important political features in it, which we do not need to go into here since they are matters of war and peace.

By Mr. Fleming:

Q. May I ask you about another matter. I am thinking particularly about the discussions of late as to the check which has appeared of late on Canadian exports so some parts of the commonwealth and empire by reason of monetary difficulties and exchange difficulties. Can you make any comment to the committee on that situation in the light of Geneva or as related to Geneva, please?—A. Mr. Fleming, most countries of the British Commonwealth are troubled by the same problem as the United Kingdom; I mean, lack of dollar reserves; and they have to meet that difficulty in considerable measure by simply reducing their purchases from the dollar areas; and, of course, Canada is in the dollar area. They have been forced to reduce their purchases because they simply do not have the money with which to pay for them. Now, what they have done, a lot of them have put on import controls to control imports from western hemisphere areas, and those import controls were put on in accordance with the provisions of this agreement; namely, balance of payments clauses; and this agreement gives them that right to protect their balance of payments by the imposition of these controls. It is the operation of these controls which has reduced the trade.

Q. You say that Canada is in the dollar area; is that entirely right? We are certainly not in the sterling area, and the world is not completely divided now between the sterling and the dollar areas. I have always understood that our position was somewhat outside of the two groups, that ours is a peculiar and probably a unique position.—A. Yes, we sort of straddle the two areas, the dollar and the sterling. I was referring there to our own dollars as well as to the United States dollars. It does so happen that our own dollar is a scarce currency. Most countries have the same difficulty with the Canadian dollar that they have with the United States dollar, so it does not make much difference.

Q. What is the relationship between them so far as Geneva is concerned; and, what effect are we likely to have in that regard so far as the Geneva is concerned?—A. The fundamental problems are being tackled, as I was saying yesterday, at the present time. The most serious difficulty in the world is due to the lack of production in Europe. They have not recovered their output to anything like the degree which was necessary, and that is the real difficulty now. I think that when that situation is overcome and Geneva is really working fully the full benefits of the agreement can be realized. If there is nothing to send no advantage can be taken of these reductions; and that is the difficulty

now. The hope is that if production is restored in Europe then the lower tariff rates which have been made at Geneva by the United States and by Canada and by many other countries will make it possible for the European countries and others to sell a larger amount of goods in the United States than they have ever sold before because of the lower tariff situation. That would be enabling them to stand on their own feet. But that cannot operate fully until the basic problem of production in Europe has been solved.

Q. Would this be a fair summary of the situation: That any benefits that will flow from Geneva are postponed by reason of the undoubted dislocation in world trade, and that this dislocation is not likely to be righted until E.R.P. has gone a considerable distance on its way?—A. That is correct, or until something else intervenes. Unless this basic problem of production is solved—and that is where E.R.P. is intended to help.

Q. Well, what about exchange?—A. You cannot get exchange until you have goods to sell.

Q. So it is purely a matter of speculation at the moment and it does not depend so much on the tariff benefits from Geneva as such. It depends more on how long it takes E.R.P. to do its beneficial work.—A. Yes. In the case of Canada, Mr. Fleming, we are now receiving concessions from the United States, so that we are already receiving some of the benefits of this agreement. Now, we are not receiving the full benefits as far as Europe is concerned because, as I say, there are production and exchange difficulties. But we have received concessions from the United States and from South American countries and from Australia, and New Zealand; these of course, are affected by the sterling situation. But as far as the United States is concerned the agreement is operated with respect to the tariff concessions which have been made and we can enjoy those benefits. As Europe comes along and improves that situation will be getting progressively better from the standpoint of this undertaking. So far as Europe is concerned, we have not reaped many benefits so far, but we are receiving tariff reductions which the United States has made, and we benefit there.

By Mr. Hazen:

Q. In connection with the South American countries and our purchases of coffee, do I understand that our purchases of coffee have switched from empire countries to some of these other South American countries like Brazil?—A. I am not familiar with the most recent statistics on that, Mr. Hazen. Possibly some of these other gentlemen would know more about that, these statistics on coffee imports.

Q. I have been informed that we are now buying a great deal more coffee from Brazil than we formerly did, I mean before the war; before the war we got more coffee from empire countries; and, if that is so, I was wondering what the reason for it was.—A. The war may have had something to do with that.

Q. Yes.—A. I am not an expert in this coffee business so I am afraid I could not give you any useful information on that.

By Mr. Quelch:

Q. Between the two wars the main trouble was not so much production as markets. Would you say today that the United States has had a change of heart in regard to its use of tariffs? If production becomes abnormal in future then the United States will be placed in a position of having to increase its exports to balance its imports, and it will also have to increase its imports to help the foreign countries to meet interest payments on their loans.—A. That is quite correct, sir.

Q. And the result of that will be an unbalancing of their trade, upsetting their internal economy.—A. It will require adjustments.

Q. Are they prepared to do that?—A. The United States are under this agreement just as much as we are, and when it is functioning fully they will have to accept an increase of imports; and that is the case particularly if ultimately these countries are going to be able to repay their loans and to meet interest payments on those loans. It is inevitable that the United States will have to accept more imports than she exports. That is one of the things which has to be accomplished. Whether or not she will do that five or ten or fifteen years from now; of course, there we are in the realm of prophesy, and I cannot undertake to speak with absolute assurance in that respect.

MR. BLACKMORE: It does not seem very likely that she would accept a situation of that kind. She is the greatest producing nation in the world, and she has got to keep her production going if she is going to remain prosperous.

The WITNESS: Of course, the United States is not entirely self-sufficient and she could use large imports if she wants them.

The ACTING CHAIRMAN: Now, gentlemen, I think I can express this opinion on behalf of members of the committee; I mean, our appreciation to members of the Tariff Board, the Finance department and the Department of Trade and Commerce for their attendance, and their continued attendance, before this committee; and I should like to compliment particularly Messrs. McKinnon, Deutsch, Kemp, Richards, Callaghan and Couillard for their very illuminating and clear explanations of this very involved material, and particularly of this most important and most complicated instrument, the Geneva agreement.

Some Hon. MEMBERS: Hear, hear.

The VICE-CHAIRMAN: So I will thank you on behalf of the committee for all that you have done for us.

The WITNESS: Mr. Chairman, if I may on behalf of all of us, I would like to say that we are very appreciative of the consideration which has always been shown to us by every member of the committee. This has been a pleasant experience for us, and if we have been of any help to the committee we will be most satisfied.

The VICE-CHAIRMAN: You certainly have been of help.

Some Hon. MEMBERS: Hear, hear.

(The committee continued in camera.)

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

May 27, 1948.

The Standing Committee on Banking and Commerce met this day at 10.30 a.m. The Vice-Chairman, Mr. E. Rinfret, presided.

The VICE-CHAIRMAN: Gentlemen, shall we come to order? I understand that Mr. Harris has some suggestion he would like to make to the committee.

MR. HARRIS: Mr. Chairman, there are two or three sentences which I would like to put on the record. You were good enough, sir, in your committee to receive in due course either a brief or a representation from what is known as the Canadian Importers Association. I understand, sir, that your clerk has written to them and expects a reply very shortly—a reply which has not yet been received.

There is another organization of equal magnitude, in so far as Canadian trade is concerned, and it is called the Canadian Exporters Association, with

offices on Colborne street in the city of Toronto, and they would like, sir, to be invited to express either by personal representation or by written brief their views with regard to the Geneva trade pacts. Up to the moment they have not been invited. They did not understand, Mr. Chairman, that this matter was being rushed along as fast as it has been. They have been reading press reports and they understand that our friends to the south probably will not reach a conclusion on these pacts until 1949, and all the information that they had would lead them to believe that they had sufficient time to make representations.

The three officers in the organization are Mr. H. V. Lush, president of the Canadian Exporters Association, Mr. Telfer, who is the general manager, and a director by the name of Dimmick. I think it would be an act of courtesy on the committee's part, inasmuch as this association has contacted one member of the committee, that if they have anything to say they should be given an opportunity to say it in a like manner as is given to the Canadian Importers Association.

It is quite true, Mr. Chairman, that you have a letter on record from the Canadian Manufacturers Association; but that does not necessarily take in all the different kinds of manufacturers. There is an organization known as the Canadian Furniture Manufacturers Association; they work in harmony with the Canadian Manufacturers Association, but some of their members, particularly a man by the name of Anderson, president of the Stratford Chair Company, would like to file some representations with this committee.

I have another long letter here, dated May 25, from the Jones Manufacturing Company Limited, who are manufacturers of saddles for bicycles and tricycles and things of that kind. One of the members of the House who is not a member of this committee is particularly interested in this matter, and in due course when you convene your committee on their behalf he would like to have the privilege of mentioning certain points which occur to him.

I am sorry to trespass on the time of this committee at this time when you are about to consider the loan bill, but I wanted to get this statement on the record. At the same time please bear in mind that when this committee opened its sessions there were a number of us who were strongly of the opinion that we ought to make haste slowly. I think, probably, Mr. Blackmore does not mind me mentioning that that was his attitude, and his statement was to the point, with regard to handling this matter with particular care. After all, Mr. Chairman, we are only 13,000,000 people and there is a big country to the south of us with ten times our population who are the keystone of the arch of this whole Geneva affair. I think rather than that the tail should wag the dog, the dog should wag the tail, and that we should conclude our deliberations when they have concluded theirs in Washington.

THE VICE-CHAIRMAN: Gentlemen, this Geneva agreement matter has been before us since the 11th of March, so I do not believe that the matter of rush would apply in this case. I think we have gone through the Geneva trade agreement carefully and given the matter careful attention; on the other hand, if the committee feels that these three associations should be heard now that we have completed our study, I am completely in the hands of the committee.

MR. HARRIS: Mr. Chairman, I do not agree we have completed our study; the committee is still wide open. I do not understand that anything is completed at all. As far as the date of March 11 is concerned, the public are slow to know whether these things are in their interests or not; they are slow to make representations, particularly when it is impossible for your committee to consider and canvass the entire export and import trade of Canada. You cannot do that. Something comes to light in due course. We have no over-all board of trade in Canada which covers the entire industries of Canada; we have an affiliated body of organizations and associations.

The VICE-CHAIRMAN: Gentlemen, I am in your hands; is it your wish that these people should be summoned before the committee?

Mr. ISNOR: May I inquire if we advised the Importers Association of these meetings?

The VICE-CHAIRMAN: In this case we are referring to the Exporters Association.

Mr. ISNOR: I am asking if we advised the Importers Association?

The VICE-CHAIRMAN: There was a request made by one member of the Committee that we communicate with the Canadian Importers Association. We have been in communication with them and they finally wrote us saying they would submit a brief instead of coming down personally.

Mr. ISNOR: When did you first write them?

The VICE-CHAIRMAN: April 30.

Mr. ISNOR: I quite agree with the remarks of the chairman that certainly the Exporters Association should have been aware that this committee was sitting and receiving representations. We are in the closing stage of our committee's deliberations and are about ready to compile a report on this particular matter; however, I certainly would not like to see anyone debarred from making representations if it is going to be helpful to us in making our report. I do not agree with Mr. Harris' suggestion with regard to the tail wagging the dog or the dog wagging the tail—whichever way he put it; I think we should go ahead and make our own decisions, so that we would have already placed our findings before parliament, and Washington would know what our attitude is in regard to the Geneva agreement.

Mr. HARRIS: I am sure, Mr. Chairman, my honourable friend will agree that if we are going to have a brief from the Importers Association on the one hand then, on the other hand, the Exporters Association should also be heard. It is a misadventure, perhaps, that the committee did not know this organization existed. I think Mr. Jaenicke asked that the Importers Association be heard or be allowed to file a brief, but we did not hear about the Exporters Association at the same time. I am sure, Mr. Chairman, that the members of the committee would like to be fair in this matter.

Mr. JAENICKE: Yes, I was the one who suggested that the Importers Association be heard, because I met a gentleman in Toronto when I was in that city on a visit. Personally, I do not think we can debar anyone from making their views known to us, especially as I do not see there is any particular hurry in the matter, anyway. Just this morning I saw a despatch in the *Christian Science Monitor* about foreign trade in the United States, and they did not pay the slightest attention to the Geneva agreement; maybe they do not know that it exists. I am baffled about the whole thing when I read the press despatches and I know the work we are doing here, but unless the United States approve of this treaty love's labour is lost, as far as we are concerned.

Mr. BLACKMORE: I am in sympathy with the remarks of Mr. Jaenicke; I believe we should take plenty of time.

Mr. TIMMINS: There is one other thought that arises in my mind out of the remarks made by Mr. Harris and other gentlemen on this point. We have been reading in the press recently concerning the fact that Canadian exports in the sterling area countries, including the United Kingdom, are falling down badly; they are falling down disastrously at the present time; and one thing that arises out of this Geneva treaty is to find out to what area we belong. The sterling area countries are, apparently, dealing among themselves, and therefore the Canadian export trade is falling down badly. Now, we are not in the sterling

area and we do not have enough American dollars really to be in a United States dollar area. We are in a dollar area of our own. Now, Donald Gordon, the deputy governor of the Bank of Canada, is making speeches and telling various associations throughout Canada where we stand with respect to United States trade and saying we are going to make a decision in respect of a trade treaty which is going to govern our future for a great number of years. It seems to me that we should have the benefit of the advice or opinions of Mr. Donald Gordon, or whoever else may be in the Bank of Canada, to help us make up our minds. When we go into this Geneva treaty—if we go into it—with whom are we going to be tied up—the sterling group or the dollar group; and what is going to happen to our Canadian trade?

Now, I have some material before me from Canadian companies who have been in existence for a long time and who say that their trade in the sterling area has dropped 90 per cent, 95 per cent or 100 per cent.

Mr. ISNOR: What is the reason for that drop?

Mr. TIMMINS: They say that Great Britain is the banker for the sterling area and our Canadian dollars are not any good to them; that they are dealing amongst themselves; they can trade among themselves. Now, I would not like to have this committee make decisions before we get the right people to come here and tell us about some of these things. We are tied up with the International Monetary Fund, but it is not going to function for two or three years; and if there is some person in the Bank of Canada or the Department of Finance who can tell us about these things I think we ought to have them come before us before we finish our hearing.

The VICE-CHAIRMAN: You realize that Mr. Deutsch is from the Department of Finance?

Mr. TIMMINS: He may be the right person. I think you, Mr. Chairman, have seen these press reports, as I have. In addition I have had the advantage of getting some direct information through some of the people affected. However, I believe we ought to have the proper man come before us.

Mr. Ross: Mr. Chairman, I have not been able to attend this committee as much as I would have liked, because of the pressure of other committee work, but I would like to ask whether these exporters have not had an opportunity to appear before the committee. I understand that the importers were asked to attend and give evidence; therefore, I think we should hear the export people also, because this is a controversial matter.

I should like to support the remarks of Mr. Jaenicke. There is, apparently, no rush in the United States about dealing with this matter. If they do not begin their work in carrying out their end of the agreement I cannot see that there is any rush for us to wind up our work in this country. This is a matter that is going to be of importance for years to come. Because of the position Donald Gordon has held these many years and because of his knowledge of the many controls imposed, surely he would be in a position to know how many of these trade barriers would work out. I hope we shall hear Donald Gordon before this committee before we make a report and that we shall also request the exporters to appear here.

The VICE-CHAIRMAN: There is a motion before the committee that we should communicate with the Canadian Exporters Association, the Canadian Furniture Manufacturers Association, and the Jones Manufacturing Company; and that we should have Mr. Donald Gordon of the Bank of Canada come before the committee. That motion has been duly seconded, and I will ask the members to vote on it.

Mr. ISNOR: Mr. Chairman, you are asking that certain individuals and companies appear here, but I would suggest that Mr. Harris is representing the exporters and that his request be granted that they be given a hearing, so as not to be put in the position of extending invitations to certain groups and overlooking other groups.

The VICE-CHAIRMAN: That is what I am asking the committee to do now.

Mr. MACNAUGHT: Can Mr. Harris tell us how long it will take to get a brief from these people?

Mr. HARRIS: I am not representing them. They happened to contact me. I am not an officer of their organization.

Mr. MACNAUGHT: If they are going to take a month or so it would make a considerable difference.

Mr. HARRIS: I do not think it would take anything like that amount of time; the Importers Association are not taking a month.

Mr. ISNOR: The importers appeared before this committee or a similar committee last year, as I recall it—

The VICE-CHAIRMAN: Let us find out if the committee wishes to hear these parties.

Mr. PINARD: Can we not fix a date for the receiving of the brief.

The VICE-CHAIRMAN: Shall the motion carry?

Carried.

Now, should we arrange to hear these people next Tuesday?

Mr. TIMMINS: Give them a week.

Mr. HARRIS: What is troubling these people at the present time is that there is an international trade fair going on at the moment at the coliseum in the Toronto exhibition grounds, and all these men are very busy at the international trade fair trying to make a great success of it. Apart from that many of them belong to the Canadian Manufacturers Association who are today in convention as well.

Mr. FLEMING: May I make a suggestion? Perhaps you might take the Jones company. They would not take so long. It is their own particular problem on which they want to appear before the committee, and we could take the associations after that. That will give them time to get this international trade fair over.

The VICE-CHAIRMAN: We will invite the Jones Manufacturing Company and maybe Mr. Donald Gordon to be here next Tuesday, and the two other associations on Thursday. Is that satisfactory? (Agreed).

In connection with the same matter I have before me a letter from the Board of Trade of the city of Toronto dated the 25th of May.

We appreciate your kindness in advising us under date of April 30 of the study being made by the Standing Committee on Banking and Commerce of the House of Commons of the General Agreement on Tariffs and Trade including the Protocol of Provisional Application thereof, together with the complementary agreement of October 30, 1947, between Canada and the United States of America and giving this board the opportunity of making representations with regard thereto.

This board, however, has no representations which it wishes to make to the committee in the matter.

Yours very truly,

F. D. TOLCHARD,

General Manager.

The Committee thereafter proceeded with the study of Bill No. 220 (Letter F of the Senate), "An Act to amend the Loan Companies Act."

APPENDIX A

LIST OF TARIFF ITEMS AND SUB-ITEMS

in respect of which the margin between the British Preferential rate and the Most Favoured Nation rate has been eliminated as a result of the tariff concessions made at Geneva, in 1947.

Tariff Item	Key Words	Concession Attributed to
7 (a)	Fresh beef and veal.....	U.S.A.
ex 8	Pâtés de foie gras, etc.....	France
15 (i)	Beeswax, unrefined	France
(ii)	Beeswax, n.o.p.	France
ex 15	Honey-comb foundations	U.S.A.
ex 711		
20	Cocoa paste, not sweetened	Benelux
21	Cocoa paste, sweetened	Benelux
22	Chocolate powder	Benelux
24	Chicory, raw	Benelux
25	Chicory, roasted or ground.....	Benelux
39 (ii)	Starch, n.o.p.	U.S.A.
45 (i)	Milk foods, n.o.p.....	U.S.A.
(ii)	Prepared cereal foods, in packages.....	U.S.A.
47 (a)	Castor beans	Brazil
ex 73	Cotton seed	Brazil
ex 76b		
ex 276b		
82 (e)	Florist stock, n.o.p.	Benelux
94 (a)	Table grapes	U.S.A.
96	Fresh fruits, n.o.p.	U.S.A.
99a	Dried prunes	U.S.A.
100	Grape fruit	U.S.A.
100a		
101	Oranges	U.S.A.
104a	Fruit pulp, canned	U.S.A.
106 (a)	Canned apricots and pears.....	U.S.A.
106 (c)	Canned fruits, n.o.p.....	U.S.A.
109a	Green peanuts	U.S.A.
113a	Copra	Benelux-France
116	Halibut	U.S.A.
120	Sardines, anchovies, etc., in oil:	
	(a) in cans from 24 to 36 ounces.....	France
	(c) in cans from 8 to 12 ounces.....	France
123 (i)	Kippered herring, canned.....	Norway
ex 133	Lobsters, fresh	U.S.A.
143a	Cigarettes	U.S.A.
144	Cut tobacco	U.S.A.
152 (i)	Fruit juices:	U.S.A.
	Lime juice	
	Orange juice	
	Lemon juice	
	Passion fruit juice	
(ii)	Fruit syrups	U.S.A.
ex 156 (iv)	Brandy	France
(v)	Liqueurs	France
160 (i) (a)	Alcoholic perfumes in bottles not over 4 ounces..	France
ex 167	Malt	Czechoslovakia
ex 225	Carnauba wax	Brazil
231b	Gelatine for capsules	Benelux
ex 238a	Moving picture films, negatives.....	U.S.A.
254 (i)	Gums:	
	Copal, damar, benzoin, etc.....	Benelux
	Barberry, elemi, gedda, etc.....	France
264 (i)	Essential oils, natural:	
	Geranium, rose, citronella, etc.....	France-Benelux
264a	Menthol	Brazil
278e	Castor oil	Brazil
ex 208t		
ex 711		

Tariff Item	Key Words	Concession Attributed to
286	Demijohns, churns or crocks, earthenware.....	Benelux
ex 296b	Magnesite, dead-burned	Czechoslovakia
ex 296b	Magnesium carbonate	U.S.A.
ex 305	Marble, rough	U.S.A.
312	Asbestos, not crude.....	U.S.A.
325	Stained glass windows.....	France
351	Wire and cable, covered.....	U.S.A.
352	Brass and copper products.....	U.S.A.
362a	Metal parts, for loose-leaf binders.....	U.S.A.
383 (b)	Tin plate, of a kind made in Canada.....	U.S.A.
394 (b)	Axles for other than railway vehicles.....	U.S.A.
401 (g)	Wire, of iron or steel, n.o.p.....	U.S.A.
424a	Hand fire extinguishers, and sprinkler heads.....	U.S.A.
435 (a)	Mining locomotives, not made in Canada.....	U.S.A.
440o (i)	Airplane engine parts, specified, not made in Canada	U.S.A.
440p	Airplane parts, specified, not made in Canada, for repair or manufacture.....	U.S.A.
ex 450	Roller skates	U.S.A.
461a	Automatic scales, not made in Canada.....	U.S.A.
498	Cane, reed or rattan.....	France
532 (i)	Clothing and articles of cotton, n.o.p.....	U.S.A.
ex 537	Twine for baling farm produce.....	Benelux
ex 537a		
545	Lace and embroideries for clothing.....	France
548	Clothing and articles of vegetable fibres, n.o.p.....	U.S.A.
549 (ii)	Carpet wool	France
(iii)	Camel hair, goat hair, etc.....	France
ex 549d	Nets made from human hair.....	China
564	Fabrics of silk or rayon, for neckties, etc.....	France
567b	Church vestments	France
586	Anthracite coal	U.S.A.
597 (ii)	Pipe organs	U.S.A.
ex 603	Karakul skins	Benelux
624	Bead ornaments, fans, statues, etc.....	France
657a	Moving picture films, positives	U.S.A.-France
658	Film, for reproduction and re-export.....	France
ex 711	Roofing granules	U.S.A.
ex 711	Corn grits	U.S.A.
ex 711	Vegetable colourings	U.S.A.
ex 711	Vegetable flavourings	U.S.A.
ex 711	Mica, unmanufactured	France
ex 711	Asbestos, crude	France
ex 711	Mineral waters	France
154		
ex 711	Nitrate of soda	Chile
ex 711 (i)	Quartz, piezoelectric, in slabs or blanks.....	Brazil
ex 445c		
ex 445d		
et al		
(ii)	Quartz, piezoelectric, manufactured.....	Brazil
833	Methyl ethyl ketone	U.S.A.
838	Oiticica oil	Brazil
ex 711		

Remarks:—

(1) As stated in the Press Release of November 17, 1947, the preference has been eliminated in respect of 94 tariff items or sub-items.

(2) It should be noted that by the Budget of June 27, 1944, Parliament had eliminated the preference in respect of farm machinery dutiable under tariff items 408, 409, 409b, 409c, 409d, 409e (i), 409e (ii), 409f, 409g, 409h, 409i, 409j and 409k.

APPENDIX B

GENERAL AGREEMENT ON TARIFFS AND TRADE

Concessions received by Canada from non-Empire countries on:

Axe heads
Asbestos
Laundry machinery
Automobile parts
Aluminum products
Electrical appliances.

Axe Heads

United States: Axe heads are dutiable under item covering "Manufacturers of iron and steel, not specially provided for". Duty reduced on this item from 45 per cent to 22½ per cent.

China: Duty bound against increase at 7½ per cent ad valorem.

Norway: Duty bound against increase at 20 per cent ad valorem.

France: Duty reduced from 25 per cent to 18 per cent.

Czechoslovakia: Duty reduced from 13 crowns to 12 crowns per kilog.

Chile: Duty reduced from 20 to 15 gold pesos per 100 kilog.

Brazil: Duty bound at 84 cruzeiros per 100 kilog.

Asbestos

United States:

Par. No.		Pre-Agreement Rate of Duty	Agreement Rate of Duty
1501 (a)	Yarn, slivers, rovings, wick, rope, cord, cloth, tape, and tubing, of asbestos, or of asbestos and any other spinnable fiber, with or without wire, and all manufactures of any of the foregoing	20% ad val.	10% ad val.
(b)	Moulded, pressed, or formed articles, in part of asbestos, containing any binding agent, coating, or filler, other than hydraulic cement or synthetic resin	20% ad val.	10% ad val.
(c)	Asbestos shingles and articles in part of asbestos, if containing hydraulic cement or hydraulic cement and other material: Not coated, impregnated, decorated, or coloured in any manner	¾¢ per lb.	⅜¢ per lb.
	If coated, impregnated, decorated, or coloured, in any manner	¾¢ per lb.	¾¢ per lb.
(d)	All other manufactures of which asbestos is the component material of chief value	25% ad val.	12½% ad val.

China: Duty of 15 per cent ad valorem bound against increase of asbestos sheets or packing, woven or compressed and on boiler composition and other products (except millboard and yarn).

Benelux: Duty free entry of crude asbestos bound. Duty of 6 per cent on thread, yarn and cord of asbestos bound. Duty of 10 per cent on fabrics of asbestos, and on manufactures of asbestos including clothing and foot-wear bound.

France: Duty free entry bound on crude asbestos. Duty reduced from 30 per cent to 15 per cent on asbestos-cement, and from 30 per cent to 25 per cent on unspecified manufactures of asbestos.

Czechoslovakia: Duty free entry on crude asbestos bound. Duty reduced from 1,000 crowns to 800 crowns per 100 kilogs. on paper and cardboard of asbestos and on asbestos yarn. Duty reduced from 1,800 crowns to 1,600 crowns per 100 kilogs. on articles of asbestos.

Chile: Duty bound at $7\frac{1}{2}$ gold pesos per 100 kilogs. on asbestos fibre and powder.
Duty bound at 150 gold pesos per 100 kilogs. on packing, brake bands, discs, rings, etc. of asbestos.

Brazil: On crude asbestos duty reduced from 140 cruzeiros per 100 kilogs. to duty free entry. On twisted yarns and rope duty reduced from 686 to 480 cruzeiros per 100 kilogs. On asbestos sheets and tubes duty reduced from 462 to 320 cruzeiros per 100 kilogs. On washers, packing and the like duty reduced from 924 to 647 cruzeiros per 100 kilogs. On unspecified manufactures duty reduced from 1526 to 1068 cruzeiros per 100 kilogs.

Syria and Lebanon: Duty bound at 25 per cent on manufactures of asbestos.

Laundry Machinery

United States: Duty reduced from $27\frac{1}{2}$ per cent to 15 per cent ad valorem.

China: Duty bound at 10 per cent ad valorem.

Cuba: Duty and surtax reduced from 13.68 per cent to 12 per cent ad valorem.

France: Duty reduced from 20 per cent to 18 per cent.

Chile: Duty reduced from 18 to $12\frac{1}{2}$ gold pesos per 100 kilogs.

Syria and Lebanon: Duty reduced from 25 per cent to 1 per cent.

Automobile Parts

United States: Duty reduced from 25 per cent to $12\frac{1}{2}$ per cent ad valorem.

China: Duty bound at 10 per cent ad valorem.

Cuba: Duty and surtax reduced from 18 per cent to 16.8 per cent ad valorem.

Norway: Duty reduced from 40 per cent to 25 per cent ad valorem.

Benelux: Duty of 12 per cent on electric starting, signalling, warning and ignition apparatus including spark plugs bound. Duty of 6 per cent on drive and steering components and parts bound. Duty of 15 per cent on chassis frames, bumpers, and wheels bound. Duty on other parts of motor cars bound at 6 per cent. Duty on generators reduced from 20 per cent to 12 per cent.

France:

	Pre-Agreement Rate of Duty	Agreement Rate of Duty
Automobile body parts .....ad val.	70%	30%
Shock absorbers .....ad val.	70%	25%
Other chassis parts .....ad val.	70%	30%
Engine parts:		
Cylinders .....ad val.	28%	15%
Piston rings .....ad val.	28%	15%
Valves .....ad val.	28%	10%
Carburettors .....ad val.	28%	20%
Oil and water pumps .....ad val.	70%	25%
Cylinder blocks, crank cases, pistons, crank shafts and many others .....ad val.	70%	30%
Starters and generators .....ad val.	28%	20%
Electric ignition apparatus .....ad val.	28%	25%
Spark plugs .....ad val.	50%	25%
Other parts of ignition apparatus .....ad val.	28%	20%
Lighting apparatus .....ad val.	28%	20%
Hooters .....ad val.	28%	20%
Other signalling apparatus .....ad val.	28%	15%
Windshield wipers and other unspecified electric appa- ratus for automobiles .....ad val.	28%	15%

Czechoslovakia: On spark plugs and starting devices duty reduced from 5,000 crowns to 2,000 crowns per 100 kilogs. Replacement parts for motor cars reduced from 3,800, 4,500 and 3,200 crowns to 3,400, 2,900 and 2,900 crowns per 100 kilogs. respectively.

Chile: Duty on parts for engines bound at 45 gold pesos per 100 kilogs. On unspecified parts of motor cars duty reduced from 120 to 40 gold pesos per 100 kilogs.

Brazil: Duty on chassis parts reduced from 305 and 476 to 154 and 238 cruzeiros per 100 kilogs. On body parts the duty is bound at 1,192 cruzeiros per 100 kilogs. Duties on most other parts bound.

Syria and Lebanon: Duties on motor car parts bound at 25 per cent.

Aluminum Products

United States:

	Pre-Arrangement Rate of Duty	Agreement Rate of Duty
In crude form.....	3¢ per lb.	2¢ per lb.
In coils, plates, sheets, bars, rods, circles, disks, blanks, strips, rectangles, and squares.....	6¢ per lb.	3¢ per lb.
Scrap	3¢ per lb.	1½¢ per lb.
Table, household, kitchen, and hospital utensils, and hollow or flat ware, not specially provided for, composed wholly or in chief value of aluminum.....	8½¢ per lb. plus 40% ad val.	4½¢ per lb. plus 20% ad val.
Articles or wares, not specially provided for, composed wholly or in chief value of aluminum.....	45% ad val.	22½% ad val.

Norway: Duty free entry bound on aluminum crude, in pigs, granular, blocks and bars.

China: Duty on aluminum ingots, grains and slabs reduced from 7½ per cent to 5 per cent ad valorem. Duty of 15 per cent on aluminum sheets and plates, and duty of 12½ per cent on other forms of aluminum bound against increase.

Benelux: Duty free entry of aluminum in lumps, ingots, plates, cakes, pellets and scrap bound. Duty of 15 per cent bound on domestic hollow-ware and utensils, and on furniture of aluminum. Duty of 18 per cent on aluminum spoons, forks, articles for table use and fancy articles for home or office bound.

Cuba: Duty and surtax on aluminum in bars, plates and wire reduced from \$6 to \$4.80 per 100 kilogs. Duty and surtax on aluminum powder reduced from \$6 to \$3.60 per 100 kilogs. Duty and surtax on unspecified aluminum articles bound at 75 cents per kilog.

Czechoslovakia: Duty free entry bound on crude aluminum. Duty bound at 480 crowns per 100 kilogs on aluminum sheets and plates and at 580 crowns per 100 kilogs. on aluminum bars, rods and wire. On articles of aluminum duty reduced from 12,000 crowns to 7,000 crowns per 100 kilogs.

Chile: Duty on aluminum in plain bars or sheets bound at 15 gold pesos per 100 kilogs.

France: On crude aluminum duty reduced from 35 per cent to 21 per cent, on semi-manufactured articles from 30 per cent to 20 per cent, and on unspecified manufactures of aluminum from 28 per cent to 20 per cent.

*Electrical Appliances**United States:*

	Pre-Arrangement Rate of Duty	Agreement Rate of Duty
Electric cooking stoves and range.....	17½% ad val.	10% ad val.
Electric washing machines.....	17½% ad val.	17½% ad val.
Electric fans	25% ad val.	17½% ad val.
Other articles (except vacuum cleaners) having as an essential feature an electrical element or device.....	25% ad val.	15% ad val.
Table, household, kitchen, and hospital utensils, not specially provided for, containing electrical heating elements as constituent parts (except electric flatirons):		
Composed wholly or in chief value of aluminum....	8½¢ per lb. plus 40% ad val.	4½¢ per lb. plus 20% ad val.
Composed wholly or in chief value of pewter.....	25% ad val.	12½% ad val.
Composed wholly or in chief value of brass.....	30% ad val.	15% ad val.
Composed wholly or in chief value of copper.....	30% ad val.	20% ad val.
Composed wholly or in chief value of iron, steel, antimony or other base metal other than alu- minum, brass, copper and pewter.....	40% ad val.	20% ad val.

China: Duty bound at 25 per cent ad valorem on electric cookers, fans, flash-lights, irons, lampware, radiators, toasters, and other similar electric appliances.

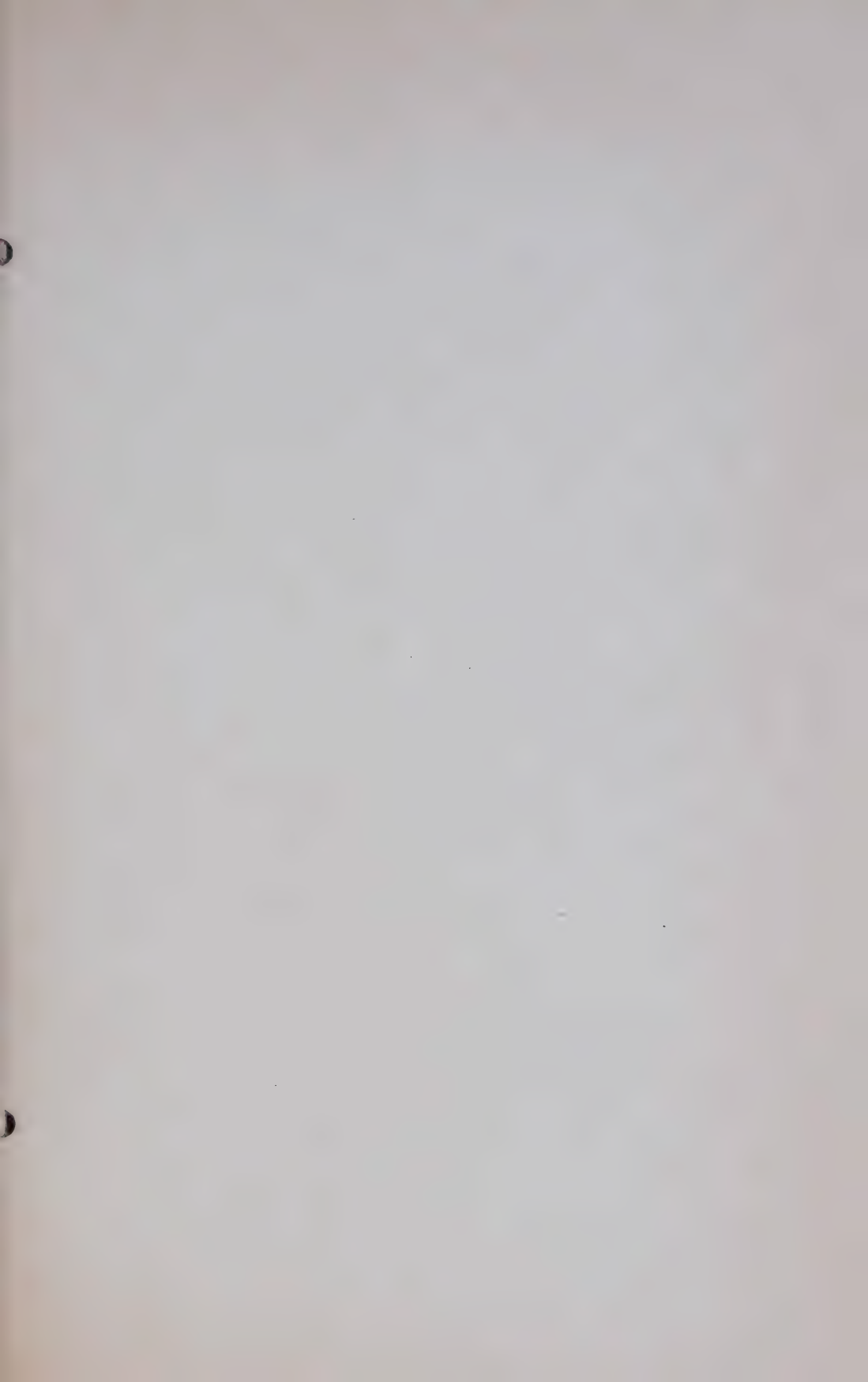
Norway: On electric refrigerators the duty was reduced from 30 per cent to 10 per cent.

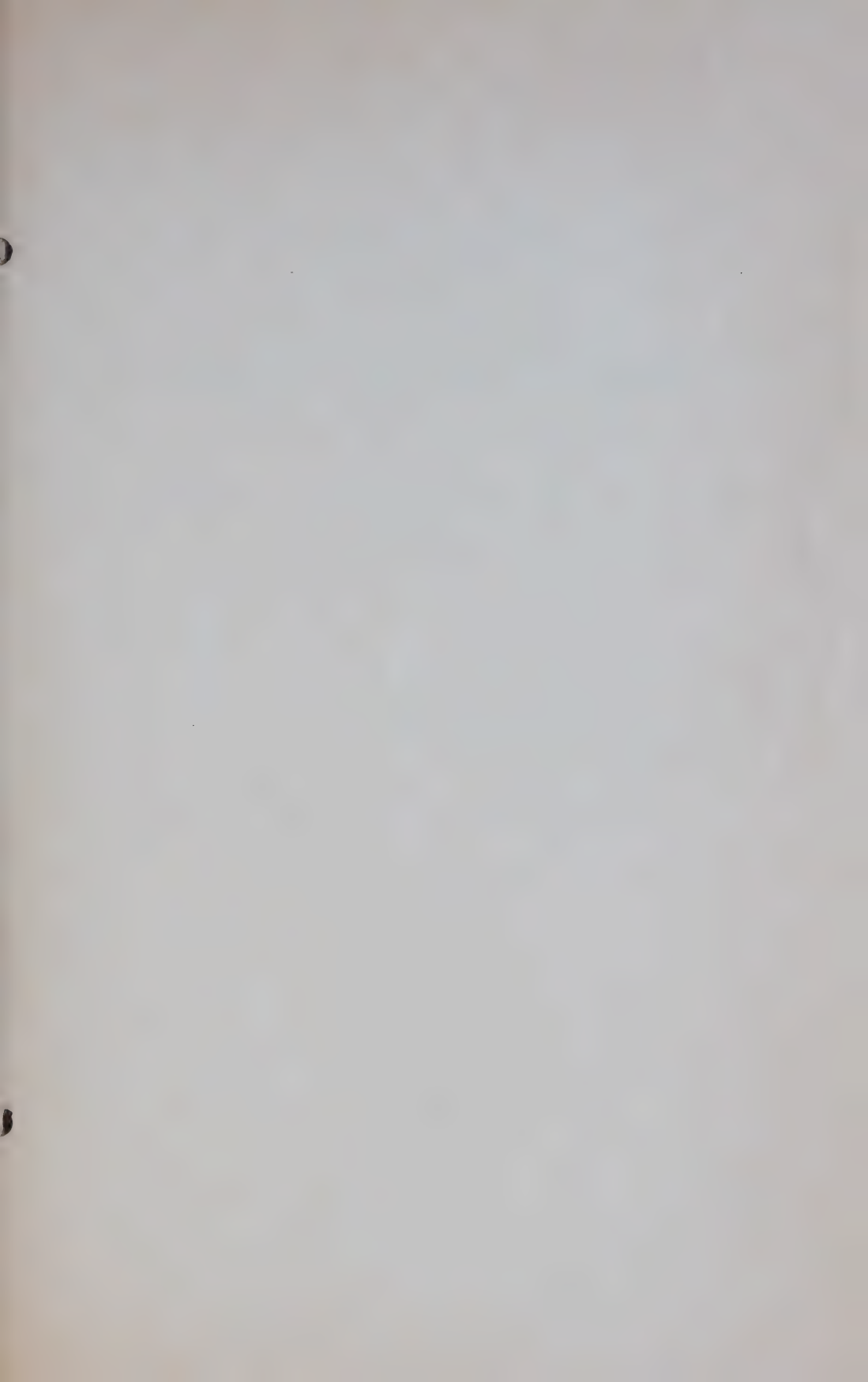
Benelux: Duty of 12 per cent on electric refrigerators bound. Duty of 10 per cent on electrical appliances in general bound.

Czechoslovakia: Duty on electric refrigerators reduced from 2,200 crowns to 1,700 crowns per 100 kilogs.

Chile: Duty on refrigerators reduced from 100 to 50 gold pesos per 100 kilogs.

France: The duty of 25 per cent applicable to most electrical appliances was reduced to 18 per cent on stoves, toasters, fans, washing and miscellaneous machines; to 15 per cent on electric razors and refrigerators, and to 22 per cent on vacuum cleaners.





CH. J. ...
...
SESSION 1947-1948
HOUSE OF COMMONS

CM XC B
- 211
STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 11


Consideration of Bill No. 220,
(Letter F of the Senate),
Intituled
"AN ACT TO AMEND THE LOAN COMPANIES ACT"

THURSDAY, MAY 27, 1948

WITNESSES:

Mr. R. W. Warwick, Superintendent of Insurance;
Mr. L. G. Goodenough, representing Dominion Mortgage and Investment
Association.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1948



ORDER OF REFERENCE

TUESDAY, 11th May, 1948.

Ordered,—That the following Bill be referred to the said Committee:

Bill No. 220 (Letter F of the Senate), intituled: "An Act to amend The Loan Companies Act".

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MINUTES OF PROCEEDINGS

THE SENATE, ROOM 262,
THURSDAY, May 27, 1948.

The Standing Committee on Banking and Commerce met this day at 10.30 o'clock a.m. The Vice-Chairman, Mr. G.-Edouard Rinfret, presided.

Members present: Messrs. Blackmore, Dechene, Dionne (*Beauce*), Fleming, Harris (*Danforth*), Hazen, Isnor, Jackman, Jaenicke, MacNaught, Marquis, Mayhew, Michaud, Nixon, Probe, Rinfret, Ross (*Souris*), Timmins.

In attendance: Mr. R. W. Warwick, Superintendent, Mr. H. A. Urquhart, of the Department of Insurance; Mr. T. D. Leonard, K.C., of Canada Permanent Mortgage Corporation; Mr. L. G. Goodenough, representing Dominion Mortgage and Investment Association and Mr. J. E. Fortin, Secretary-Treasurer of the Association; Mr. R. P. Baker, of Huron and Erie Mortgage Corporation; Mr. G. Morrow, of Central Canada Loan and Savings Company.

The Committee considered Bill No. 220 (Letter F of the Senate), An Act to amend the Loan Companies Act.

Mr. R. W. Warwick, Superintendent of Insurance and Mr. L. G. Goodenough, of Dominion Mortgage and Investment Association were called. The witnesses were questioned on the various clauses of the said Bill.

Clauses 1 to 8 inclusive were adopted unanimously.

At this stage Mr. Jaenicke moved that a new clause be added to the Bill:—

The Loan Companies Act, Chapter 28, of the revised Statutes of Canada 1927 and amendments thereto is amended by inserting the following section between Sections 25 and 26 of the said Act:—

25A. (1) Any member of a company who complains that the affairs of the company are being conducted not with a view to the interest of the whole body of members, but in a manner oppressive to some part of them (including himself), may make an application to the court by petition for an order under this section.

(2) If on any such petition the court is of opinion

- (a) that the company's affairs are being conducted as aforesaid; and
- (b) that to wind up the company would unfairly prejudice that part of the members, but otherwise the facts would justify the making of a winding up order on the ground that it was just and equitable that the company should be wound up;

the court may, with a view to bringing to an end the matters complained of, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future, or for the purchase of the petitioner's shares by other members of the company, or for the surrender and cancellation of the petitioner's shares and the reduction accordingly of the company's capital, or otherwise.

(3) Where an order under this section makes any alteration in or addition to any company's memorandum or articles, then notwithstanding anything in the principal Act but subject to the provisions of the order the company concerned shall not have power without the leave of the

court to make any further alteration in or addition to the memorandum or articles inconsistent with the provisions of the order; but, subject to the foregoing provisions of this subsection, the alterations or additions made by the order shall be of the same effect as if duly made by resolution of the company and the principal Act shall apply to the memorandum or articles as so altered or added to accordingly.

(4) Any order under this section altering or adding to, or giving leave to alter or add to, a company's memorandum or articles shall, within fourteen days after the making thereof, be delivered by the company to the Superintendent of Insurance for registration.

(5) The term "court" mentioned in this section shall mean the court as defined in the Companies Act in Chapter 27 of the revised Statutes of Canada 1927.

After some discussion thereon the amendment by Mr. Jaenicke was allowed to stand.

It was agreed to revert to Clause 7 of the Bill, whereupon, on motion of Mr. Isnor, it was unanimously

Resolved

That the following new clause be added to Bill No. 220, immediately after Clause 7 thereof, viz.:

7A. Subsections (1) and (2) of Section 22 of the said Act are repealed and the following substituted therefor:

"2 (1) The Directors may by By-law provide for the appointment of a Chairman of the Board who shall preside at all meetings of the Board of Directors.

(2) If the Chairman of the Board is absent, the President, or in his absence, a Vice-President, or in the absence of both the President and the Vice-President, a Chairman selected by the Directors present shall preside at such Meetings."

Clause 9 of the Bill was adopted.

At this stage, Mr. Jaenicke moved further amendments to the Bill as follows:

1. That subsection 4 of Section 30 of the said Act be amended by inserting between the words "thereof" and "be" in the fourth line of the said subsection the following words: "Subject to the consent of the Minister."

2. By further amending the said Section 30 by adding thereto subparagraph 9 as follows:—

9. The foregoing provisions contained in subsections 1 to 8 hereof shall not take effect until the Minister has given his consent thereto in accordance with the following provisions:—

(a) After the company has complied with the provisions of subsections 1, 2, 3, and 4 hereof, the directors shall give notice to the Superintendent of Insurance of the shares to be forfeited stating the name and address of the shareholder, the amount of shares allotted to him, the dates and amounts of the calls made thereon, and the amount paid thereon;

(b) The Superintendent of Insurance shall submit such report, together with such other facts pertaining to the company, to the minister;

- (c) The Minister may cause such inquiries to be made as he deems advisable and just, and he may give his refusal or consent to such forfeiture, and if the company is not indebted to the public, may order the company to issue a fully paid up share or shares to the shareholder in default, for such amount, not exceeding the amount actually paid thereon, as to him may seem just and proper.

After further debate thereon, the said amendments were allowed to stand.

Clauses 10 and 11 of the Bill were adopted.

On Clause 12 of the Bill, Mr. Jaenicke moved in amendment thereto that the words "and of any judgment creditor of a shareholder", in lines 41 and 42 of page 5 of the Bill, be stricken out.

After discussion and the question having been put on the amendment by Mr. Jaenicke, it was resolved in the negative on the following division: Yeas, 2; Nays, 6.

Clause 12 was adopted without amendment.

Clauses 13 to 24 inclusive were adopted.

The preamble and title stood over.

Mr. Warwick informed the Committee, through the Vice-Chairman, that a few days would be required to study the amendments proposed by Mr. Jaenicke and which were allowed to stand.

At 12.15 o'clock p.m., on motion of Mr. Marquis, the Committee adjourned to meet again at 10.30 o'clock a.m., Tuesday, June 1st, 1948.

ANTOINE CHASSÉ,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
May 27, 1948.

The Standing Committee on Banking and Commerce met this day at 10.30 o'clock a.m. The Vice-Chairman, Mr. E. Rinfret, presided.

The VICE-CHAIRMAN: The order of the day, gentlemen, is an Act to amend the Loan Companies Act. Section 1, annual general meeting. Shall section 1 carry?

Carried.

Section 2, application of Act.

Mr. JAENICKE: The superintendent of insurance is here. Will he tell us what the companies clauses of part 3 of the Companies Act say? I should have looked it up myself.

R. W. Warwick, Superintendent of Insurance, called.

The WITNESS: Mr. Chairman and members of the committee: Part III of the Companies Act relates to the companies clauses, and sections 144 to 198 have to do with internal regulations of the company, directors and their powers, bylaws, capital stock and calls thereon, books of the company, shareholders' liability, trusts, and such like matters which are now incorporated in the Loan Companies Act.

By Mr. Jaenicke:

Q. Why should they not apply to this? What is the reason?—A. The purpose of the amendment in section 2 of the bill is to make all sections of this Act applicable to all companies irrespective of the dates of incorporation. At the present time we have five loan companies only, some of which were incorporated prior to the passing of the 1914 Act. All provisions of the Act were not then applicable to those companies incorporated prior to that date. Some were subject to the provisions of the Companies Clauses, and so on. The purpose of the amendment is to make all companies, irrespective of the date of incorporation, subject to all provisions of this Act.

Q. The companies clauses in the Companies Act which are cancelled by this amendment are incorporated in this bill?—A. In the Loan Companies Act.

By Mr. Hazen:

Q. Did I understand you to say there were five companies?—A. There are only five loan companies at present subject to departmental supervision.

Q. That were incorporated by special Act?—A. All incorporated by special Act.

Q. Have those companies been notified that this bill is up?—A. The association has, representing the companies. The bill itself has been discussed with the association by the department on several occasions, and both parties are in full agreement as to the terms.

Q. What is the name of the association?—A. The Dominion Mortgage and Investments Association, and their representatives are here today.

The VICE-CHAIRMAN: There are three representatives here. The Trust Companies Association of Ontario is represented.

Mr. HAZEN: Are they here for the purpose of being heard or to merely follow the bill?

The VICE-CHAIRMAN: I think they are here for the purpose of being heard. There is also the Central Canada Loan and Savings Company which is represented by Mr. Morrow, and the Canada Permanent Mortgage Corporation is represented by Mr. Leonard.

Mr. ISNOR: Why not hear them first? Then we will be in a position to decide more intelligently.

The VICE-CHAIRMAN: Are you finished with Mr. Warwick for the moment?

Mr. JAENICKE: I am through with section 2, yes.

By the Vice-Chairman:

Q. Have you any general remarks you would like to make on the bill?—A. Mr. Chairman, and members of the committee: I was going to say this bill to amend the Loan Companies Act follows along the general lines of the—

Mr. ISNOR: I hesitate to interrupt the witness, but I think it would be helpful to find out first as to whether they are agreeable to this.

The VICE-CHAIRMAN: My purpose in asking Mr. Warwick that question was so that he might explain the general purpose of the Act first, and if there are any objections we will hear them right afterwards.

The WITNESS: This bill to amend the Loan Companies Act follows along the general lines of the bill passed in 1947 to amend the Trust Companies Act and, as I have said before, has been discussed on several occasions with members of the Dominion Mortgage and Investments Association, and the department and the association are in agreement on its terms.

By Mr. Jackman:

Q. I wonder if it would be helpful to the committee if you would mention to us just what the loan companies do now that the trust companies do not do. Did I understand you to say there are only five loan companies?—A. There are only five dominion loan companies at the present time, all incorporated by special Act.

Q. There are a number of provincial loan companies?—A. They do not come under the Department of Insurance.

Q. There are certain provincial loan companies?—A. Yes.

Q. Would you tell the committee in a general way what the loan companies do and perhaps differentiate them from the activities of the trust companies?—A. Under the definition of the Loan Companies Act you will note the business of a loan company is to lend money under security of mortgage. They are lending companies; that is their principal business.

Q. And they accept deposits and issue— —A. And issue debentures, that is right, whereas the trust companies in addition to those powers handle trusts and administer estates, and so on, a general trust company business. By the definition the principal business of loan companies is lending money on security of mortgages.

By Mr. Isnor:

Q. Are they confined to that particular field?—A. Their powers are set out, yes.

Q. In other words, a loan company is more restricted in its activities than a trust company; is that right?—A. I would not say that, I would say the other way—a loan company, yes, that is right. They cannot do all the business a trust company can do.

Q. That is what I want to know.—A. I was going to say that the bill, having been discussed with the association, I might refer here to four or five of the principal amendments. We have already considered section 2 of the bill which is for the purpose of bringing all companies, irrespective of the date of incorporation, under the provisions of the Act.

Section 13 of the bill enlarges the investment powers given under section 61 of the Act to permit them to purchase common stocks of no par value. The Canadian insurance companies have had that power since 1924, and the trust companies were given the same right last year. In addition the same section also limits the investments of a loan company in common stocks to 15 per cent of the value of its company funds. The same division applies to insurance companies and also to the trust companies.

By Mr. Hazen:

Q. That is section 13?—A. Section 13 of the bill. Then, about the only other provision of importance is section 17. This enlarges the borrowing powers of the companies both by way of deposits and also issue of debentures. As the Act now stands the company may by bylaw in the manner set out in the Act increase those powers to six times the paid capital and reserve. The bill would permit an increase in that to ten times the paid capital and reserve. Similiar action was taken last year for the trust companies. I think, Mr. Chairman, any other sections can be discussed as they come up.

The VICE-CHAIRMAN: Mr. Leonard, representing the Canada Permanent Mortgage Corporation, is here.

Mr. LEONARD: Mr. Goodenough is representing the whole association. Perhaps he might speak for all companies.

L. G. Goodenough, Dominion Mortgage and Investments Association, called.

The WITNESS: Mr. Chairman and members of the committee: I am representing the Dominion Mortgage and Investments Association. I should like to correct a statement that was made earlier. The association does not represent the five dominion loan companies but three of them only, the Canada Permanent Mortgage Corporation with head office in Toronto, the Huron and Erie Mortgage Corporation with head office in London, Ontario, and the Central Canada Savings and Loan Company with head office in Toronto. The other two companies which we do not represent are the Eastern Canada Savings and Loan Company with head office in Halifax and the International Loan Company with head office in Winnipeg.

By Mr. Isnor:

Q. Why do you not represent them?—A. They are just not members of our association.

By Mr. Marquis:

Q. They are the same kind of companies?—A. The same kind of companies precisely.

Q. They have the same interests?—A. Yes.

By Mr. Jaenicke:

Q. Would you class the International Loan Company with the other companies?—A. I am not familiar with the operations of that company; I have no details about it at all, but that company was incorporated in 1920, and for

that reason is in a different category from the other companies which were incorporated prior to 1914, and are therefore governed in part by the present Loan Companies Act, and in part by their special Acts and in part by Part III of the Companies Act. As Mr. Warwick has stated last year the Trust Companies Act was amended for the purpose of tidying up a number of sections, and for the purpose of making the Act applicable to all dominion incorporated trust companies. At the suggestion of Mr. G. D. Finlayson, who was then superintendent of insurance, it was thought advisable to amend the Loan Companies Act. It was suggested by Mr. Finlayson that perhaps it would be well this year to amend the Loan Companies Act for the same reasons, first to remove a number of provisions which had become obsolete since the Act was first enacted in 1914, and secondly for the purpose of facilitating administration, and to bring about uniformity in the laws governing dominion incorporated companies to make the Act applicable to all dominion incorporated companies regardless of what might be stated in their special Acts of incorporation. Most of the amendments that are in the bill before you today deal with more or less routine company procedural matters such as the keeping of books, the transfer of stock, the appointment of directors and an executive committee, in line with similar corresponding provisions in the general Companies Act, the Canadian and British Insurance Companies Act, and the Trust Companies Act.

Q. Does the executive committee also exist under those other Acts?—

A. Yes. The same provision will be found in the Trust Companies Act and in the general Companies Act from which this provision is taken. I should also like to say that there are with me today the following gentlemen who will be glad to endeavour to answer any questions for the members of the committee, Mr. J. E. Fortin, Secretary-Treasurer of the Dominion Mortgage and Investments Association; Mr. T. D. Leonard, who has been mentioned, is the President of the association and represents also the Canada Permanent Mortgage Corporation; Mr. R. P. Baker of the Huron and Erie Mortgage Corporation, and Mr. Morrow, representing the Central Canada Loan and Savings Company.

Mr. Warwick has mentioned there is one extension of the powers provided for in this bill, and that is the right of the companies to invest within certain limits in no par common stock. There were a number of other changes in respect of investment powers which the companies would like to have had considered, but they are still under discussion and consideration by the department, and we would like to have an opportunity on another occasion, perhaps next year, to bring those before the committee for consideration.

By Mr. Michaud:

Q. Before proceeding any further I should like to know who sponsors this bill? Is it the association?—A. As I mentioned the suggestion came from the department that the Act be revised. There has not been a revision of this Act since 1914. We support it.

Q. Are you the sponsor? Did you introduce it in the Senate?—A. No, we did not.

The VICE-CHAIRMAN: It is a government bill.

Mr. MICHAUD: That is what I want to know.

By Mr. Marquis:

Q. You have no particular objection against the bill?—A. We have no objection.

Q. You are in favour of it?—A. We have no objection to any of the provisions in the bill, and have been discussing them for several months with the department and are in agreement.

Q. And all the representatives to whom you referred a minute ago are in favour of the bill, too?—A. Yes, sir.

By Mr. Isnor:

Q. No objection whatsoever?—A. No, there is no objection.

Mr. MARQUIS: It is only to convince us—

Mr. MICHAUD: That the government is doing a good job.

By Mr. Jaenicke:

Q. What is the subscribed capital of each of the companies you represent, how many shareholders?—A. In respect to the Canada Permanent Mortgage Corporation the authorized capital is \$20,000,000, and subscribed \$7,000,000.

Q. That is the Canada Permanent?—A. Yes, and the same amount paid up. For the Central Canada Loan and Savings Company the authorized capital is \$5,000,000 and subscribed and paid up \$2,500,000. For the Eastern Canada Savings and Loan Company the authorized capital is \$1,000,000.

By Mr. Isnor:

Q. I think that has been increased—Eastern Trust, did you say?—A. Eastern Canada. The trust companies are not interested in this—the Eastern Canada Savings and Loan. I take these figures from the report of the Superintendent of Insurance. Their authorized capital is \$1,000,000; their subscribed and paid-up capital of \$750,000.

Mr. ISNOR: That is right.

Mr. MARQUIS: The authorized capital of the three companies totals \$26,000,000?

The WITNESS: Yes, sir.

By Mr. Jaenicke:

Q. What is the number of shareholders?—A. The Huron and Erie Mortgage Corporation; their authorized capital is \$10,000,000; the subscribed capital is \$9,000,000; and their paid-up capital is \$5,000,000. The International Loan: their authorized capital is \$20,000,000; their subscribed capital is \$785,800. I am sorry, that is changed. Now their subscribed capital in that International Loan is \$1,942,200; and the paid-up capital in that company is \$970,000.

Q. I was only asking you about your company?—A. I am sorry.

Q. Can you tell me the shareholders in your company, can you tell me the number of shareholders?—A. Yes.

Mr. LEONARD: I think I can answer that question for you. The Canada Permanent Mortgage Corporation—I have not the figures—but it runs into thousands.

Mr. JAENICKE: I know. There are only two companies who have a large number of shareholders, and those are the Canada Permanent Mortgage Corporation and the International.

Mr. BAKER: It is roughly 1,800 shareholders in the case of the Canada Permanent Mortgage Corporation.

Mr. TIMMINS: Could we ask Mr. Goodenough to refer to the section which has to do with the extension of powers. I think it is clause 13.

The VICE-CHAIRMAN: Can we get at it now, or when we come to it?

The WITNESS: That is section 13.

By Mr. Timmins:

Q. Would you care to make a comment on that at this time, and we can deal with it specifically when we come to it, as the chairman suggests. Is this

something which was asked for by the companies, or is it something suggested by the department, or how does it arrive?—A. It was something asked for by the companies and in regard to the changes which have taken place in the last twenty years in the method of financing companies. Twenty years ago the common method was to issue stock of par value. But since that time it has become more popular to finance companies by issuing stock of no par value, that is, common stock; and there are a great many sound companies which have issued no par stock; and no such stock has been denied, so far as investment is concerned, by loan companies concerned.

I think the insurance companies have been permitted to invest in such stock since 1924, and, similarly, the Ontario incorporated companies have the right to invest in such stock and last year the trust companies were given that right.

Q. Is there a specific statutory provision prohibiting loan companies from investing in no par value stock at the present time?—A. There is no specific prohibition, but the absence of the authority to do so in the Act deprives them of that right, because there is a specific provision that they may invest in par value stocks paying certain dividends which are a percentage of the par value. Therefore, there is no basis upon which to judge the eligibility of the no-par value common stock.

By Mr. Isnor:

Q. It is definite as to what type of investment you can make?—A. Yes, sir.

Q. And for that reason you are not permitted to invest in no-par value stock?—A. Yes; there is no yard-stick provided.

By Mr. Jaenicke:

Q. Have you been carrying on business by way of an executive committee of the board of directors?—A. I do not know of a company having an executive committee at the present time. It is felt that in order to facilitate the handling of day-to-day routine business, that a committee of the board of directors might well look after such matters; and more important matters, of course, are reserved, in the provisions of the bill, for consideration by the full board of directors.

Q. In any of your three companies, the three companies in which you are interested, have they made any investments not authorized by the Act as it now stands, but which will now be ratified?—A. No. All the investments which have been made up to the present time are authorized investments, either under the present Companies Act or under existing laws. In other words, they are all legal investments.

Q. You have seen the provisions of the bill whereby any investment made prior to the 31st of December, 1947, is validated, and it does not validate any investment prior to that date which does not comply with the present amendment?—A. A number of these provisions are not applicable to some companies incorporated by special act. They, perhaps, have the appropriate powers under their present governing legislation, but they are prepared to place themselves under the restrictions which are now imposed. The date which is in there was put in so that the companies would be on notice, at that time, that there may be a change.

Therefore, any investments which they made, which were not authorized by the proposed amendment in the bill, would be unauthorized, and they would have to dispose of them.

Q. Which of your companies issues debentures? Which of your three companies?—A. The two companies, The Canada Permanent Mortgage and

the Huron and Erie. The other company has no outstanding liabilities by way of debentures or deposits.

Q. What are the debentures of the Canada Permanent Mortgage Company?

Mr. LEONARD: They are, roughly, \$30,000,000.

The WITNESS: The figure for the Canada Permanent Mortgage Company is now \$31,000,000, and for the Huron and Erie Company, \$18,900,000.

By Mr. Jaenicke:

Q. You say the extended powers would be, for instance, the power to invest in no-par value stock, but that power existed under the private acts of the companies before this amendment.—A. No, they do not have that power, under any of their acts at the moment, the Dominion Incorporated Loan Companies.

Q. Have your companies invested to a great extent in common stock of no-par value?—A. They have no investments, in no-par value stock at the moment because they are unauthorized.

Q. In any other stock of par value?—A. Yes; they have considerable investment in par value stock; I do not know what the figures are.

Q. Are they mostly in Canadian companies?—A. They are required to be in Canadian companies under the Act.

Mr. TIMMINS: Is there a limitation in respect to the proportion of the moneys which you may invest in common stocks?

The WITNESS: There is an overall limitation provided for in this bill of 15 per cent of the company's total funds.

By Mr. Timmins:

Q. Has there been that limitation in the past?—A. Not that limitation, no sir.

Q. Does that limitation cover both par-value stock and no-par value stock?—A. It covers all common stock.

Q. It is all inclusive. Would there be anything to stop a loan company from investing so much money in common stock of an industrial corporation, and then upon finding that the company was not making a success, that they would have to make a further investment until they really controlled the company: would there be any limitation upon that?—A. There is a 30 per cent limitation in that respect; that is, the company is not permitted to hold more than 30 per cent of all stock.

Q. Of the total issued stock of any one company?—A. So it is not possible for a company to obtain control.

Q. Is that new?—A. No, that has always been in the Act.

Mr. TIMMINS: It has always been in the Act.

Mr. JAENICKE: Perhaps I might ask Mr. Warwick with regard to the investment powers in no-par value stock.

I suppose representations have been made to the Department of Insurance in regard to insurance companies and in regard to loan companies, to extend those powers to no-par value stocks; and if that is so, would you give the present opinion.

Mr. WARWICK: No. The insurance companies have the power at the present time to invest in no-par value common stock in respect to which dividends of \$4 per share have been paid for at least seven years.

Mr. JACKMAN: Have they made representations to extend that, because many stocks are sold or issued at comparatively low prices because it is more popular to sell them that way. A dividend of \$4 per share means that a stock will sell for anywhere between \$50 and \$100. So, have there been representations made to change that provision of the Insurance Act?

Mr. WARWICK: No. All I can say is that the question of the amendment of the insurance companies investment powers is one which we think will come up. It is under consideration and we think there may be a revision; but there has been no request from any individual company.

Mr. JACKMAN: It is not then the desire of the department, or of the gentlemen who are here, to testify or go into that question.

Mr. WARWICK: No.

The VICE-CHAIRMAN: Now, gentlemen.

By Mr. Jaenicke:

Q. Before this witness leaves the stand, I would like to ask him about section 12 of the Act.

Did you have anything to do with, or did you make any representations to amend this section so that a judgment creditor of a shareholder shall have the right to inspect the books?—A. That amendment?

Q. A judgment creditor of a shareholder shall have the right to inspect the books. What is the idea, if you know?—A. The section, as it appears in the bill, corresponds to the corresponding section in the Companies Act and all the other Dominion Companies Acts. We did not make any representations. The section was put in in that way and it was merely for the purpose of uniformity. We have no views on it one way or another.

Q. I would think your views would be the other way; that you would not want a judgment creditor of your shareholders, whom you are supposed to protect, inspecting the books. Anyway, you made no representation.

Mr. JAENICKE: Mr. Warwick, what was the reason for putting this in?

Mr. WARWICK: Sections 10, 11 and 12 are brought in. That includes the section to which you refer, and it was brought in to bring the Loan Companies Act into substantial uniformity with the Companies Act itself, and the Trust Companies Act as amended last year.

Mr. JAENICKE: Now, if it is wrong for the other two, it does not make it right here.

Mr. ISNOR: It is questionable whether it is wrong.

Mr. JAENICKE: Well, I would be against that. If we have to amend the other two Acts, then let us amend them.

The VICE-CHAIRMAN: Are there any other questions? Do you wish to ask Mr. Goodenough any other questions? Are there any questions you would like to ask Mr. Lennard who represents the Canada Permanent Mortgage Company, or Mr. Morrow, who represents the Canada Permanent Loan Savings Company, or any questions you would like to ask Mr. Baker?

No questions.

Mr. JAENICKE: The amendment will come up last, I suppose.

The VICE-CHAIRMAN: I was looking at that a minute ago; I think it should come between sections 8 and 9.

Mr. JAENICKE: I have no objection really to the amendment, but I would think that they would grant you great powers. The International Loan Company is a company of which I have a great deal of knowledge which I would like to put before the committee.

Mr. TIMMINS: Shall we proceed then, clause by clause?

The VICE-CHAIRMAN: I was thinking that the proper place would be between sections 8 and 9, because it is an amendment to article XXV (a), and I think that would be the proper place.

Mr. ISNOR: Section 1 is carried.

The VICE-CHAIRMAN: Section 1 is carried.

Is section 2 carried?

Carried.

Section 3?

Mr. HAZEN: Just a minute. I just want an explanation of the words in the margin. It says that the change in this section is verbal. What do you mean by a verbal change? I am puzzled by these words.

Mr. WARWICK: The Act reads now, one thousand nine hundred and fourteen.

Mr. HAZEN: And you want to change it to read: nineteen hundred; you want to change one thousand nine hundred to read nineteen hundred.

Mr. WARWICK: That is right.

The VICE-CHAIRMAN: Carried.

Section 4:

"Election of directors". "Auditors."

Carried.

Section 5:

"Number of directors."

Carried.

Section 6:

"Qualifications of directors."

Carried.

Mr. HAZEN: What change has been made to section 6?

Mr. WARWICK: Section 6 is necessary to the change indicated under section 9, where the company, may, by by-law, reduce the par value of its shares from \$100 to \$10 or any multiple thereof. Therefore, in order to retain in section 18 of the Act, the minimum requirement of \$2,500 which there now is, of one hundred par value shares, the section has to be changed. They have to change the section to dollars.

Mr. ISNOR: There is no change in spirit however.

Mr. WARWICK: No change in substance.

Mr. ISNOR: Carried?

Mr. JACKMAN: With respect to the splitting of shares of no-par value, it says: into \$10 or any multiple thereof not exceeding \$100. But a company might wish to reduce its par-value to \$35, four-to-one; so why not say: shares of \$10 each, or of a greater amount but not exceeding \$100?

It may not be of any particular importance, but many companies do like to make an even division such as four-to-one rather than ten-to-one, or some other multiple of ten. So I think it would be more practicable if you said: greater instead of a multiple.

The VICE-CHAIRMAN: We are on section 6 now. You are going too fast.

Is section 6 carried?

Carried.

Section 7. "Executive Committee".

Carried.

Section 8, "Branch offices and local advisory boards."

Carried.

At this point if you would refer to the report of the Banking and Commerce Committee under the date of May 13, 1948, you will see that Mr. Jaenicke suggested an amendment which should be incorporated at this point in the bill.

Do you care to explain your amendment at this time, Mr. Jaenicke?

Mr. JAENICKE: Yes, Mr. Chairman. I have a big file here in connection with the International Loan Company of Winnipeg. This company has quite

a number of shareholders. They were first incorporated under the provincial law in Manitoba, and I think they received a Dominion charter in 1920.

Then they proceeded to go out into the country to the farmers mostly, in the early '20's, to sell shares, telling them that they were a good investment and that they would have a nice income.

The shares were \$100, but they charged \$120 for them, because there was a \$20 premium. A further arrangement was that they would not have to pay all at once for their shares, but would pay fifty per cent on them as they were called up and that would be all they were forced to pay, and the balance would be accumulated by means of dividends which would be paid.

You can imagine what happened in the '30's, during the years of depression and crop failure. Calls were made but they did not collect any money, or at least very little. At any event, I think at one time they had a subscription of over \$5,000,000; and I think their capitalization is \$20,000,000.

Then they started to forfeit shares and at the present time I think what has been paid on the capital is around \$1,000,000, yet 33 per cent of that represents money paid by the shareholders whose shares have been forfeited.

I have a list of the shareholders here and also a list of the shares forfeited.

There is a case here of an estate in Manitoba which had taken out \$12,000 of shares upon which they had paid over \$5,000; yet the shares were cancelled and forfeited.

And again I know of two cases of two old men in my vicinity. They held a lot of shares in the district from which I come in Saskatchewan, and they sold all over Manitoba. I am sorry that Mr. Ross is not here now because I think he would be interested in this too.

The two cases I have in mind are of two old men. One paid over \$1,800, and the other paid over \$1,600, I think, on a \$5,000 subscription; yet their shares have been forfeited.

Another thing is that the two gentlemen who apparently managed this company, Dr. Argue and Mr. Dick—who are in the real estate and insurance business in Winnipeg—they manage this company—and the company has only one stenographer—and they have a thirty year contract made by the directors with these two managers; and they get paid so much for investing the money and so much for collecting the money. It is a sure thing, so far as they are concerned. Whether or not interest rates are high or low they get their money.

Then I know of a case of an old gentleman in Winnipeg, an old civil servant, who was a shareholder, who had interested himself very greatly in this thing. I think the file of the Superintendent of Insurance will show the representations which he made; yet those two gentlemen hold proxies over twenty years old, and they, of course, control the general meeting of the shareholders and they do as they please.

The first amendment I made is taken out of the British Companies Act. It was amended last year. The words in the section are verbatim as taken out of the British Companies Act whereby:—

Any member of a company who complains that the affairs of the company are being conducted not with a view to the interests of the whole body of members, but in a manner oppressive to some part of them (including himself), may make an application to the court by petition for an order under this section.

So that the court may make a decision and where the order makes any alteration—

Where an order under this section makes any alteration in or addition to any company's memorandum or articles, then notwithstanding anything in the principal Act but subject to the provisions of the order,

the company concerned shall not have power without the leave of the court to make any further alteration in or addition to the memorandum or articles inconsistent with the provisions of the order; but, subject to the foregoing provisions of this subsection, the alterations or additions made by the order shall be of the same effect as if duly made by resolution of the company and the principle of the Act shall apply to the memorandum or articles as so altered or added to accordingly.

Any order under this section altering or adding to, or giving leave to alter or add to, the company's memorandum or articles shall, within fourteen days after the making thereof, be delivered by the company to the Superintendent of Insurance for registration. The term "court" mentioned in this section shall mean the court as defined in the Companies Act, chapter XXVII of the Revised Statutes of Canada, 1927.

In other words, the court shall have the power to control the company which includes the power to wind up the company; and in view of the experience of that company, I think the amendment ought to be adopted.

I may say that I do not think the other loan companies, for instance, the Canada Permanent, of which company I have some knowledge, needs to worry about a section such as this. It is an old reliable company, and my amendment is not proposed to affect them in any way.

Later on I shall have another amendment to the section dealing with forfeitures.

Mr. MARQUIS: For my information, do you not think there is a danger there? If a shareholder or anybody can come to the court, he may overrule the decisions of the shareholders who may decide their own matters in a general meeting.

Mr. JAENICKE: I do not know, I think we should leave the decision to the courts.

Mr. MARQUIS: But do you not think that many petitions could be made to the court in order to prevent a company from operating and the shareholders would not have the right to decide their own business. It is for my information that I ask the question because I have not studied your amendment.

Mr. JAENICKE: The shareholders of this company who are interested in the matter desire that it be wound up and the assets turned over to the custodian and the money turned over to the shareholders. I have one of the financial statements and it shows the company is making very little headway and paying very few dividends.

Mr. MICHAUD: If your amendments were adopted would it mean that it would be possible for these shareholders whose shares have already been forfeited to apply for relief to the court?

Mr. JAENICKE: No.

Mr. MICHAUD: It would only provide relief for those who, in the future, would suffer at the hands of unscrupulous people.

Mr. JAENICKE: The shares which have been forfeited are forfeited and I am not trying to open that matter.

Mr. ISNOR: I am rather interested in a form of proxy which would be in existence for thirty years. Have you a copy?

Mr. JAENICKE: No.

Mr. ISNOR: That is not the usual form of proxy.

Mr. JAENICKE: Apparently it is the sort of proxy this company used. Mr. Batho whom I mentioned before has prepared a little booklet. By the way, the gentleman died last January very much to my regret. Mr. Batho says:—

Today, for all practical purposes, this company is tied hand and foot by Messrs. Argue, and Dick through the use of proxies. Proxies are commonly used in company business, and their use seems to be quite necessary. But in every other company, or practically every other company, the proxies sought are for one meeting only; and the need for these is to facilitate the doing of business in the event of a small attendance at that meeting. But Dr. Argue and Mr. Dick use continuing proxies, the most vicious proxy yet devised, to continue their stranglehold upon the control of the company. The reports of recent annual meetings tell us that the possession of proxies was announced as follows:—

Proxies represented

1944—4,250 shares (one share, one vote)

1945—4,583 shares (one share, one vote)

1946—5,768 shares (one share, one vote)

Ever since this company began Dr. Argue has assiduously gathered proxies day in and day out. At first these proxies were all for himself; then later they are made to be used by either Argue or Dick. A number of these proxies are about 20 years old;

Mr. ISNOR: They have never been revoked.

Mr. JAENICKE: No, they have not been revoked.

Mr. ISNOR: They could have been revoked.

Mr. MARQUIS: I do not know whether the drafting of this section is proper but I feel that it should be a good thing to have the courts protect the members of such companies against some abuses that may exist.

Mr. JAENICKE: If the committee is favourable toward my idea perhaps we could let the clause stand and I could take it up with Dr. Ollivier. He would assist me in preparing something more understandable.

Mr. MARQUIS: I was not actually criticizing the drafting of the section because I have not had an opportunity to study it and I am talking only of the principle. I knew many companies who effected abuses in that particular line, particularly in the 1920's, when they went through the countries selling shares here and there to shareholders who were never at the meetings. Some people got the proxies and voted with them and there were rather infamous results. People who are far away cannot defend their own interests and I think these matters should be referred to the courts in order that the courts may make such decisions as would protect the public.

Mr. MICHAUD: The courts cannot afford protection unless they have jurisdiction and jurisdiction can only be given by proper amendments.

Mr. MACNAUGHT: May I ask one question in connection with this?

Mr. JAENICKE: Yes.

Mr. MACNAUGHT: If you think there is merit in your amendment do you not consider it would be proper to have it introduced first into the Companies Act before endeavouring to put it into an act which relates only to loan companies?

Mr. TIMMINS: I think Mr. MacNaught is right. This clause runs through all companies, loan companies, trust companies, and you are working against a principle that has been long established, ever since there has been company law. You say you have taken this from the British Companies Act but it seems to me we ought not to establish it in this Loan Companies Act before we have it tested out.

Mr. JAENICKE: If it turns out to be a good piece of legislation we can put it in the other acts.

Mr. MACNAUGHT: I would suggest the proper procedure would be to endeavour to amend the Companies Act.

Mr. JAENICKE: I have been thinking of that but you know what happens to private bills. Here I have a chance, my first opportunity, to put this before members of parliament who have the power to rectify this situation which is rotten in that particular company, and there is no doubt of that at all.

Mr. MACNAUGHT: There is just one other matter I wish to draw to your attention. I notice that subsection 5 of your first amendment defines "could". I also notice that section 11 of the amending act defines "court" and should your amendment pass we would have two definitions of the word "court" in the one act. Although the definitions are not substantially different they are different in detail.

Mr. JAENICKE: Where is "court" defined?

Mr. MACNAUGHT: Page 5, and it is a somewhat better definition.

Mr. JAENICKE: I am sorry, I did not find it in the front of the act and then when I looked into the Companies Act it was not there.

Mr. MACNAUGHT: I think you should clarify that matter.

Mr. MARQUIS: Perhaps it would be better to have the section and the amendment stand, as Mr. Jaenicke has suggested, and we will then have an opportunity to continue the study of the clauses of the bill.

The VICE-CHAIRMAN: I was going to ask Mr. Goodenough, representing the association, to give us his views on the amendment.

The WITNESS: I understand, Mr. Chairman, and members, that perhaps subject to further consideration, my principals have no objection to the principles of the amendment proposed. We think perhaps it might be preferable to introduce the legislation in the general Companies Act rather than to put it in a specific act relating to loan companies only. I think perhaps some of the wording of the section, since it is taken from the British Act might not be appropriate to our own act. For example there is reference to the principal act which I presume is this act, and there is reference to "company's memorandum or articles of agreement", a term more commonly used in relation to companies in Great Britain and it may be well to have another look at it here. I should say we have not had an opportunity of examining this as we did not have notice of it until five minutes before the sittings this morning.

Mr. MARQUIS: I understand the representative of the company has no objection to the principle?

The VICE-CHAIRMAN: Shall we let the section stand?

Stand.

Now, may we revert to section 7 and there is an amendment proposed by the association.

7(A) Subsections 1 and 2 of Section 22 of the said Act are repealed and the following substituted therefor:

22. The Directors may by By-law provide for the appointment of a Chairman of the Board who shall preside at all meetings of the Board of Directors.

(2) If the Chairman of the Board is absent, the President, or in his absence, a Vice-President or in the absence of both the President and the Vice-Presidents, a Chairman selected by the Directors present shall preside at such Meetings.

Mr. MARQUIS: Who is sponsoring the amendment?

The VICE-CHAIRMAN: The association.

The WITNESS: This amendment is being brought about by the fact the act is being made applicable to all companies. One company, the Huron and Erie, has had for twenty years a chairman of the board of directors probably appointed under the existing legislature governing the company, and the company desires to continue that gentleman in office. The general act, section 22, provides that the present or in his absence a vice-president shall preside at all meetings of the directors and of the shareholders. Our suggestion, which has been read by the chairman is merely to permit a chairman of the board to be other than the president or vice-president and in the absence of those two officials someone could be appointed by the shareholders to act in that capacity.

Mr. TIMMINS: It seems to be a usual clause in company law affairs.

Mr. JAENICKE: I wonder if the department has any objection?

Mr. WARWICK: No, the department has no objection and it is in agreement.

Mr. ISNOR: I would move that the amendment be adopted, seconded by Mr. MacNaught.

The VICE-CHAIRMAN: Shall the amendment carry?

Carried.

Section 9, capital stock.

Mr. JACKMAN: I have already referred to the fact that it might facilitate matters if for the word "multiple" be substituted the words "shares of \$10 each or of any greater amount not exceeding \$100."

Mr. MARQUIS: For instance, \$13.30?

Mr. JACKMAN: No, they would not use that figure because it would cover the case of a company which desired to reduce the par value by an even division.

Mr. ISNOR: I think the section as it is now is in uniformity with the Banking Act.

Mr. JACKMAN: The Bank Act is very specific and it does not use the expression "in multiples of \$10."

Mr. ISNOR: The general principle is there.

The VICE-CHAIRMAN: Shall the section carry as it is?

Carried.

Between sections 9 and 10 I think should come the second amendment proposed by Mr. Jaenicke. The amendment appears at page 336 of number 8 of our Minutes and Proceedings and Evidence.

Mr. JAENICKE: This amendment is for the purpose of casting a few more duties upon the minister—he has not very much to do. The amendment has to do with the cancellation of shares which I mentioned a little while ago, and the amendment is to the effect that the shares can only be forfeited subject to the consent of the minister. Then I propose to add to subsection 3 a clause number 9 as follows:—

9. The foregoing provisions contained in subsections 1 to 8 hereof shall not take effect until the Minister has given his consent thereto in accordance with the following provisions:—

- (a) After the company has complied with the provisions of subsections 1, 2, 3, and 4 hereof, the directors shall give notice to the Superintendent of Insurance of the shares to be forfeited stating the name and address of the shareholder, the amount of shares allotted to him, the dates and amounts of the calls made thereon, and the amount paid thereon;
- (b) The Superintendent of Insurance shall submit such report, together with such other facts pertaining to the company, to the minister;

- (c) The Minister may cause such inquiries to be made as he deems advisable and just, and he may give his refusal or consent to such forfeiture, and if the company is not indebted to the public, may order the company to issue a fully paid up share or shares to the shareholder in default, for such amount, not exceeding the amount actually paid thereon, as to him may seem just and proper.

The effect would be that in those cases which I have mentioned the minister can order that the shares be paid up. It only has reference to where a company has no public liability. This company has no public liability. The company lent out the shareholders' money and made interest on it even where they had forfeited the shares.

Mr. ISNOR: In the case of the person who subscribed for \$5,000 worth of shares—

Mr. JAENICKE: He subscribed \$12,000 and paid over \$5,000 and then those shares were forfeited.

Mr. ISNOR: My question was coming to the point where I was going to ask if the investor would be issued with only the stock represented by the amount he had paid?

Mr. JAENICKE: Yes, and the minister could say as well that there were perhaps some expenditures to be taken into consideration. I would not suggest that the investor be issued with paid up shares to the extent of the money he invested. This \$20 premium which I mentioned would not be included because I understand the idea of that premium was to pay the organization expenses. However, the matter would be within the discretion of the minister and as I have mentioned it is only in the case of a company that has no public liability.

Mr. MICHAUD: Is this your own drafting?

Mr. JAENICKE: Yes.

The VICE-CHAIRMAN: Do those two amendments follow the state of the first amendment or are they completely independent?

Mr. MARQUIS: It is another amendment.

Mr. TIMMINS: This is completely independent.

Mr. JAENICKE: Yes. Section 30 deals entirely with forfeiture of shares.

The VICE-CHAIRMAN: My question is whether there is any relation between amendment No. 1 and amendment Nos. 2 and 3?

Mr. JAENICKE: Not necessarily.

Mr. TIMMINS: What you are saying is in spite of the fact there has been forfeiture for non-payment the minister ought to accept the authority and power to re-instate.

Mr. JAENICKE: No, this is not retroactive.

Mr. TIMMINS: No, but if in the future—

Mr. JAENICKE: They could not forfeit because the first amendment I made is with respect to subsection 4. "That subsection 4 of section 30 of the said act be amended by inserting between the words 'thereof' and 'be' in the fourth line of the said subsection the following words: 'subject to the consent of the minister'."

Mr. HAZEN: You are going pretty fast, Mr. Jaenicke, and it is hard to follow you.

Mr. JAENICKE: The section will read like this:

Mr. HAZEN: Which section?

Mr. JAENICKE: Subsection 4 of section 30 would read: "If the requisitions of any such notice, are not complied with, any shares in respect of which such notice has been given may at any time thereafter, before payment of all calls or

instalments and interest due in respect thereof, subject to the consent of the minister, be forfeited by resolution of the directors to that effect; and such forfeiture shall include all dividends declared in respect of the forfeited shares not actually paid before the forfeiture."

Mr. TIMMINS: That is what I was suggesting. The company would not in the ordinary course of events forfeit a share or a debenture of shareholders or debenture holders who had not paid the first call. Then you are putting it upon the minister to more or less consent to that or to over-ride it?

Mr. JAENICKE: The forfeiture is not complete until the minister has consented.

Mr. HAZEN: The minister would have to judge in some of these cases.

Mr. TIMMINS: He would be a court of appeal.

Mr. MACNAUGHT: Why do you think this is necessary?

Mr. JAENICKE: I think it is necessary in order to prevent the forfeiture of thousands of dollars in this company; and that may happen again. That company has elected around \$1,000,000 of shares and they have forfeited over \$300,000. One-half of their capital consists of money which they forfeited from their shareholders.

Mr. MARQUIS: Could it not be that the shares should not be forfeited unless the money were needed to pay for expenses and liabilities and so on?

Mr. JAENICKE: That is what I say. It only applies if the company has no public liability. It would not apply at all to the Canada Permanent Loan Company or the Huron and Erie Company. They owe debentures.

Mr. MICHAUD: Would it not encourage a company to evade this by incurring a small public liability in order to get out of the section of the Act.

Mr. JACKMAN: For the reason which Mr. Michaud has given, I think Mr. Jaenicke, you have to redraft the first section in some way because, all a company would have to do in order to evade the section would be to incur a loan which they have the power to do, of, let us say, \$100,000, in order to take them out of the working of the section.

The VICE-CHAIRMAN: Shall the amendment stand?

Mr. ISNOR: Could we hear Mr. Warwick.

The VICE-CHAIRMAN: Yes, Mr. Warwick.

Mr. WARWICK: We have not had an opportunity to consider this at all. We would like to have a little time to consider it.

The VICE-CHAIRMAN: Then let it stand.

Mr. JACKMAN: If we are going to take up the section at a later date, perhaps it might be well now to have the representations of the companies which are here, to let them give their opinions today, if they are prepared to do so. Otherwise they might be asked to come back here in order to reply.

The VICE-CHAIRMAN: Mr. Goodenough.

The WITNESS: I have not had an opportunity to consider the effect or the ramifications of this, or of discussing it with the companies. I do not know whether any of the representatives of the companies would like to express any views themselves.

Mr. MACNAUGHT: Again, I think it would be much more advisable if this were brought into the Companies Act rather than into the Limited Act.

Mr. JAENICKE: There are very few companies which would be obliged—oh, a small manufacturing company usually has an indebtedness.

The VICE-CHAIRMAN: Shall the amendment stand then?

Section 10.

Carried.

Section 11, "Validity of transfers of stocks."

Carried.

Section 12, "Inspection of books".

Mr. JAENICKE: I would move an amendment to that.

The VICE-CHAIRMAN: An amendment to section 12.

Mr. JAENICKE: Yes. I move that we strike out the words "and of any judgment creditor of a shareholder", as shown in lines 41 and 42.

Mr. MACNAUGHT: And what is the reason? Why should not the creditor of a shareholder look at the books of the company?

Mr. JAENICKE: I think there are all sorts of rules of court for the discovery of assets and the discovery of execution. I think the companies are in agreement on this matter because I see the gentlemen over there nodding their heads.

Mr. ISNOR: That doesn't make it right, of course, if they agree.

The WITNESS: We have no objection, Mr. Jaenicke, to the amendment; it is merely in here for the purpose of making the section uniform with corresponding provisions governing other companies. Perhaps it means more work for us; but we are not objecting to it one way or another.

Mr. JAENICKE: Somebody said it was in the other Companies Act. I submit that it is the small people who invest in these loan companies, to a great extent; it is not the rich people, but the small people, who invest to lay up—and I do not think an execution creditor should be facilitated in this connection, especially since we have proper rules of all courts which enable any judgment creditor to find out what assets the judgment debtor has.

Mr. MACNAUGHT: It is true we have those rules, but they are sometimes difficult and expensive to enforce. This is a simpler method whereby a judgment creditor can take a peek at the books. I can see no objection whatever to his doing so.

Mr. MICHAUD: I think this is a much easier method than the other one, by way of examination.

Mr. TIMMINS: You would never get it the other way.

Mr. MARQUIS: When you want to find out the shares owned by a debtor, you have to find it out by examination. Now, if he is honest, he will tell you what shares he has, but if he does not want to pay, it will be pretty hard to find out what kind of assets he has.

The VICE-CHAIRMAN: May I bring to the attention of the committee that item 105 of the General Companies Act reads in exactly the same terms:—

The books mentioned in section one hundred and three and the register of transfers and branch registers of transfers and the books mentioned in section one hundred and four of this Act during reasonable business hours of every day, except Sundays and holidays, shall, at the place or places where they are respectively kept as authorized by said sections one hundred and three and one hundred and four, be open to the inspection of shareholders and creditors of the company and their personal representatives and of any judgment creditor of a shareholder, any of whom may make extracts therefrom.

Mr. HAZEN: How long has that been in force?

The WITNESS: Since 1902.

The VICE-CHAIRMAN: Shall section 12 carry?

Mr. JAENICKE: No.

The VICE-CHAIRMAN: Then shall we vote on the amendment? All those in favour of the amendment? All those against the amendment?

I declare the amendment lost.

Section 13, "Investment of company's funds."

Carried.

Section 14, "Investment in shares of trust companies."

Mr. HAZEN: May I ask about section 13, subsection (2A):—

The total book value of the investments of the company in common stocks shall not exceed fifteen per cent of the book value of the company's total funds but this subsection shall apply only to a company which receives money on deposit or which borrows money by the issue of its bonds, debentures or other securities.

Why does that apply only to companies which receive money on deposit?

Mr. WARWICK: It is not intended to apply to a company using its own shareholders' funds; in other words, that is an investment company.

Mr. TIMMINS: But when it borrows from the public—

Mr. WARWICK: The limitation applies.

The VICE-CHAIRMAN: Carried.

Section 14, "Investment in shares of trust companies."

Carried.

Section 15, "Deposits."

Carried.

Section 16, "Cash."

Carried.

Section 17, "Publication of notice."

Carried.

Section 18, "Repeal."

Carried.

Section 19?

Mr. HAZEN: May I refer again to section 13, subsection (2A). Can a company invest up to one hundred per cent in common stocks if it does not receive money on deposit or borrow money or issue bonds?

Mr. WARWICK: There is no limitation on it. They are dealing only with their shareholders' money.

The VICE-CHAIRMAN: Section 19, carried.

Section 20, "Refusal to produce books."

Carried.

Section 21, "Repeal."

Carried.

Section 22, "Repeal."

Carried.

Section 23, "Model bill amended."

Carried.

Section 24, "Coming into force."

Carried.

Mr. ISNOR: Shall the title be approved?

The VICE-CHAIRMAN: We still have before us this amendment of Mr. Jaenicke's.

Mr. JAENICKE: I suggest that we let this stand and in the meantime I shall interview Dr. Ollivier and consult with him and perhaps we can meet tomorrow.

The VICE-CHAIRMAN: We are adjourned until tomorrow morning then at 10.30.

Mr. TIMMINS: Why shouldn't we have a representation from the solicitor for the department who must have his finger on every detail of draughtmanship

of this bill. All we have to do is to have the chairman ask him to give us an opinion on this amendment.

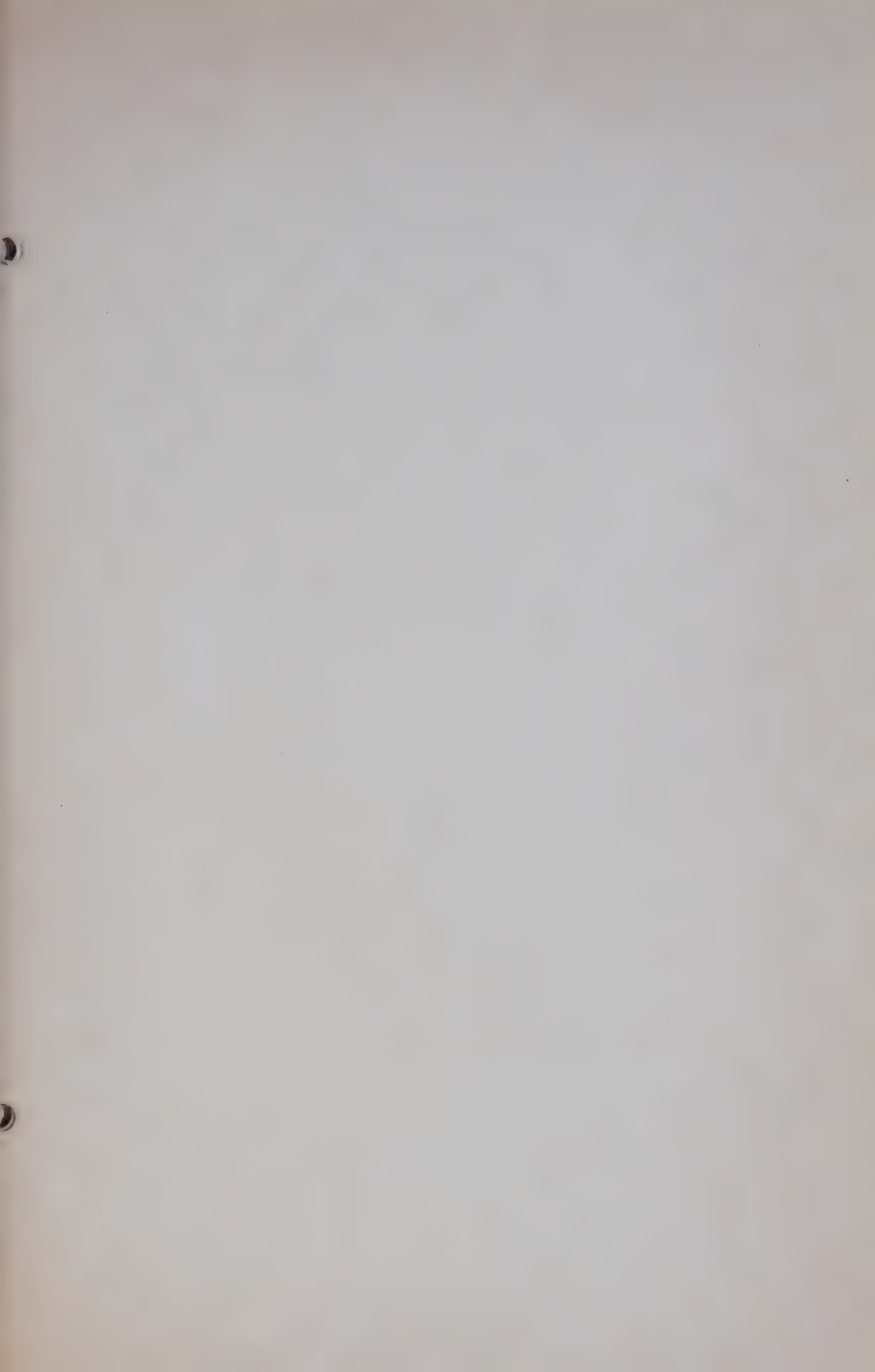
The VICE-CHAIRMAN: That would be Mr. Warwick's responsibility, to bring with him, tomorrow morning, whatever help he wishes to have.

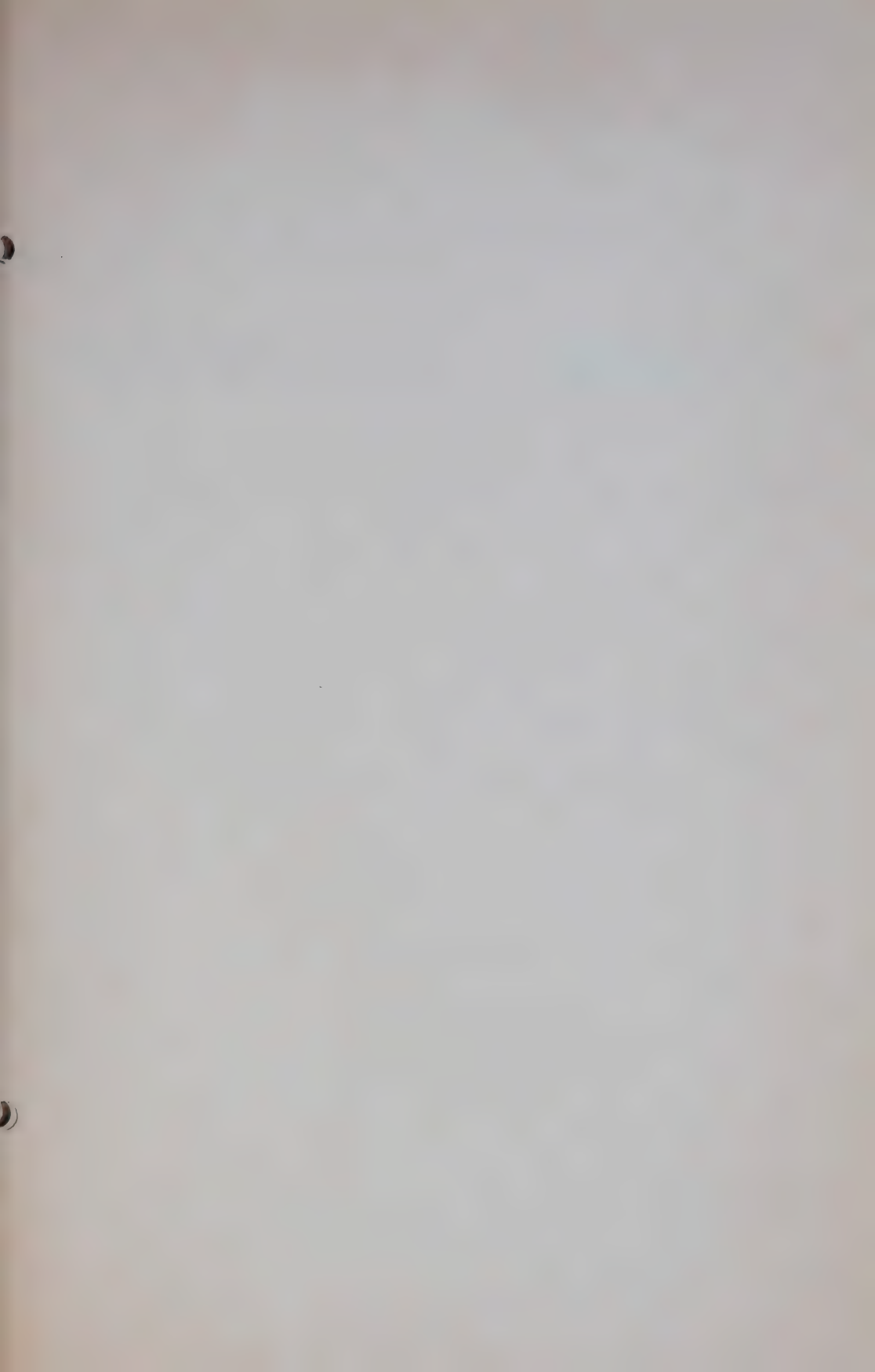
I understand this matter will have to be referred to the Minister of Justice and it would not be possible to have a report from him tomorrow morning. So might I suggest Tuesday morning.

Mr. MARQUIS: I move the adjournment.

Mr. MICHAUD: I second it.

The VICE-CHAIRMAN: We are adjourned until next Tuesday.





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SESSION 1947-1948
HOUSE OF COMMONS

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STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 12

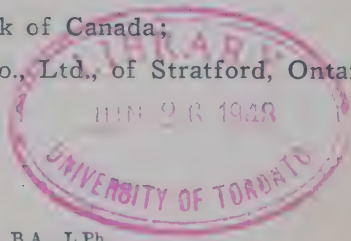
Consideration of Bill No. 220,
(Letter F of the Senate),
Intituled
"AN ACT TO AMEND THE LOAN COMPANIES ACT",
and
Subject-matter of the Geneva Agreements.

TUESDAY, JUNE 1, 1948

WITNESSES:

Mr. Donald Gordon, Deputy-Governor, Bank of Canada;

Mr. Paul Jones, of Jones Manufacturing Co., Ltd., of Stratford, Ontario



OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY

1948

ERRATA

The numerals in the third paragraph after the word *Resolved*, on page 470 of the Minutes of Proceedings and Evidence of Thursday, May 27, 1948, should be corrected to read "22.(1)".

REPORTS TO THE HOUSE

Wednesday, June 2, 1948.

The Standing Committee on Banking and Commerce begs leave to present the following as its

FIFTH REPORT

1. Pursuant to the Order of Reference of the House, dated Friday, March 12, 1948, your Committee has considered the subject-matter of the General Agreement on Tariffs and Trade, including the Protocol of Provisional Application thereof, annexed to the Final Act of the Second Session of the Preparatory Committee of the United Nations Conference on Trade and Employment held at Geneva from April 10 to October 30, 1947, together with the complementary agreement of October 30, 1947, between Canada and the United States of America.

2. Your Committee has heard the following witnesses:—

Mr. H. B. McKinnon, Chairman of the Tariff Board;

Mr. J. J. Deutsch, Director of Economic Relations, Department of Finance;

Mr. H. R. Kemp, Director of Commercial Relations Division, Department of Trade and Commerce;

Dr. A. E. Richards, Economist, Department of Agriculture;

Mr. W. J. Callaghan, Commissioner of Tariffs;

Mr. G. C. Cowper, Chief of Foreign Tariff Section, and

Mr. Louis Couillard, Commercial Relations Division, of the Department of Trade and Commerce;

Mr. Donald Gordon, Deputy Governor of the Bank of Canada.

3. Your Committee has also heard and received representations on behalf of the Fisheries Council of Canada, through Mr. F. H. Zwicker, of Lunenburg, N.S., and Mr. C. D. Penney, of Vancouver, B.C.; on behalf of Jones Manufacturing Co. Ltd., of Stratford, Ontario, through Mr. Paul Jones; and a brief on behalf of Canadian Exporters Association.

4. A printed copy of the Minutes of Proceedings and Evidence adduced is tabled herewith.

All of which is respectfully submitted.

G. EDOUARD RINFRET,
Vice-Chairman.

WEDNESDAY, June 2, 1948.

The Standing Committee on Banking and Commerce begs leave to present the following as its

SIXTH REPORT

Your Committee has considered Bill No. 220 (Letter F of the Senate), intituled: An Act to amend the Loan Companies Act, and has agreed to report same *with* amendments.

A printed copy of the Minutes of proceedings and evidence in connection therewith is tabled herewith.

All of which is respectfully submitted.

G. EDOUARD RINFRET,
Vice-Chairman.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, ROOM 430,
Tuesday, June 1, 1948.

The Standing Committee on Banking and Commerce met this day at 10.30 o'clock a.m. The Vice-Chairman, Mr. G.-Edouard Rinfret, presided.

Members present: Messrs. Benidickson, Black (*Cumberland*), Blackmore, Dionne (*Beauce*), Fraser, Gour (*Russell*), Harris (*Danforth*), Hazen, Isnor, Manross, Marquis, Pinard, Probe, Quelch, Rinfret, Timmins.

In attendance:

In connection with the Geneva Agreement—Messrs. Donald Gordon, Deputy Governor of the Bank of Canada; H. B. McKinnon, Chairman of the Tariff Board; Herbert R. Kemp, Director of Commercial Relations Division, Department of Trade and Commerce; A. J. Bradshaw, M.P., and Paul Jones, of Jones Manufacturing Company, Ltd., Stratford, Ontario.

In connection with Bill No. 220 (Letter F of the Senate), an Act to amend the Loan Companies Act,—Messrs. L. G. Goodenough, representing Dominion Mortgage and Investment Association, and J. E. Fortin, Secretary-Treasurer of the Association; R. W. Warwick, Superintendent and H. A. Urquhart, of the Department of Insurance.

The Chairman informed the Committee that the Canadian Exporters Association had wired stating that they did not wish to have its representatives appear, or submit a brief. He also read a communication from the Secretary of the Furniture Manufacturers' Association. (*See today's Minutes of Evidence*).

Mr. Donald Gordon was called. The witness was questioned at length in regard to the Geneva Trade and Tariff Agreements.

At 1.00 o'clock p.m. the examination of Mr. Gordon was adjourned to the afternoon sitting.

The Committee then considered Bill No. 220 (Leter F. of the Senate), an Act to amend the Loan Companies Act.

Mr. Probe, on behalf of Mr. Jaenicke, in the absence of the latter, with the consent of the Committee, withdrew the two amendments proposed by Mr. Jaenicke at the meeting held on May 27, 1948. (*See Minutes of Proceedings and Evidence No. 11*).

Mr. Probe then moved the following amendment to said Bill No. 220, which was unanimously adopted, viz:

Resolved,—That clause 5 of the Bill be amended by deleting the introductory paragraph thereof and substituting the following therefor:

5. (1) Paragraphs (c) and (d) of subsection one of section fifteen of the said Act are repealed and the following substituted therefor:—

(c) The requirements as to proxies, the record to be kept of them and the time, not exceeding ten days, within which proxies must be produced and recorded prior to a meeting in order to entitle the holder to vote thereon; *provided that an instrument of proxy shall not be valid unless executed within one year of the date of the meeting at which it is to be used.*

Clause 5, as amended, was unanimously adopted.

The title, and the preamble, were adopted and the Bill ordered to be reported to the House, as amended.

At 1.15 o'clock p.m. the Committee adjourned to meet again at 4.00 o'clock p.m. in the afternoon.

AFTERNOON SITTING

The Committee resumed at 4.00 o'clock p.m. The Vice-Chairman, Mr. G.-Edouard Rinfret, presided.

Members present: Messrs. Black (*Cumberland*), Blackmore, Cote (*St. Johns-Iberville-Napierville*), Dechene, Fulton, Gour (*Russell*), Harris (*Danforth*), Hazen, Jackman, Manross, Marquis, Michaud, Probe, Pinard, Rinfret, Timmins.

In attendance: The same officials as are listed for the morning meeting in connection with the Geneva Trade and Tariff Agreements, with the addition of Mr. J. J. Deutsch, Director of Economic Relations Division, Department of Finance.

Mr. Donald Gordon, Deputy Governor, of the Bank of Canada was recalled.

The witness was further questioned in regard to the Geneva Trade and Tariff Agreements, and was excused.

Mr. Paul Jones, of Jones Manufacturing Company, Limited, Stratford, Ontario, was called, heard and retired.

Mr. Bradshaw, M.P., with the consent of the members, addressed the Committee briefly.

The Chairman indicated that all matters before the Committee had been completed, except that no further word had been received from the Canadian Importers and Traders Association Inc., or from the Montreal Board of Trade.

All officials and witnesses present were then excused and the Committee continued its deliberation in camera.

On motion of Mr. Marquis, seconded by Mr. Blackmore, the Fifth Report (appearing in today's Minutes of Proceedings and Evidence), was unanimously adopted.

At 6.00 o'clock p.m. the Committee adjourned to the call of the Chair.

ANTOINE CHASSE,

Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
June 1, 1948.

The Standing Committee on Banking and Commerce met this day at 10.30 a.m. The Vice-Chairman, Mr. E. Rinfret, presided.

The VICE-CHAIRMAN: Will you come to order, please, gentlemen? At our last meeting Mr. Harris moved that we communicate with the Canadian Exporters Association, the Canadian Furniture Manufacturers Association, the Jones Manufacturing Company Limited; and Mr. Timmins asked that Mr. Donald Gordon be asked to give some specific information concerning the sterling and dollar areas. We have communicated with these various concerns. The Canadian Exporters Association has wired us as follows:

Canadian Exporters Association expresses thanks for opportunity to make representations relative to Geneva trade agreements before House of Commons Standing Committee on Banking and Commerce and I am directed to state that the association does not wish to have its representatives appear or submit a brief.

A. F. TELFER,
General Manager and Secretary,
Canadian Exporters Association.

The Canadian Furniture Manufacturers Association replied as follows:

The position of this association regarding any concession by Canada in respect of tariff item 519 was explained in statement presented to Trade and Tariff Committee March sixth 1946 stop Experience has shown that Canadian furniture industry with protective tariff lower than thirty-two and a half per cent is hard hit when American market will not absorb what American furniture factories can produce stop As furniture imports now banned we consider no further representations can be made now.

C. V. FESSENDEN,
Furniture Manufacturers Association,

The Jones Manufacturing Company Limited sent us the following wire:
Retel will meet committee ten thirty A.M. June first daylight time.

PAUL JONES.

I understand that Mr. Jones is here and will appear before us later.

Mr. Donald Gordon is now sitting at my left and is ready to answer any questions which members of the committee care to put to him.

Mr Timmins are you ready to proceed?

Mr. HARRIS: Mr. Chairman, before you call your witness, in view of the wires that you have received from certain companies there are one or two matters I would like to bring to the attention of the committee. First of all, may I say we are happy to have Mr. Donald Gordon with us this morning. This is the first time I have had the pleasure of shaking hands with Mr. Gordon, although we have all known him for quite some years and appreciate the great work he has done on behalf of Canada. We have all, I think, avoided worrying him about little details that might concern some industry or some phase of industry which was not of such magnitude as the matters he was

handling during the hectic times of price control and what not. On behalf of the laymen of the committee, I am happy to see Mr. Gordon here this morning.

Point No. 2, sir, is this: it so happens that we are meeting here today when one of the most important trade events, at least since the war, is transpiring in another place, namely, at the coliseum in the city of Toronto.

If I might state pointedly with regard to the Canadian Exporters Association, it so happens that the men who voluntarily, without pay or reward, conduct the affairs of the Canadian Exporters Association are themselves very heavy exporters and they are tied tightly to this great event which is going on in the coliseum, of which honourable mention was made in the House of Commons yesterday, and at which, you will recall, some 35,000 people attended, at the International Trade Fair, and from which will emanate, we hope, for Canada a great deal of business, the kind of business we need, namely, export business. Just yesterday it was my pleasure to entertain and look after a group—a small group shipping into Canada only a million dollars worth of stuff a year. They hope to expand. The whole of our economy is more or less trade minded just now. They are all focused, Mr. Chairman—I want you, sir, to get that point clearly—on the Trade Fair while the Trade Fair is going on, and they are not much interested, perhaps—not as much interested in what is transpiring in this committee. Therefore, Mr. Chairman, I was rather hopeful—not wanting to delay your particular function or chore—I was hopeful that our matter here might not be rushed too much or hurried too much. I do not know—perhaps some of the other members of the committee might have some idea why our matter should be rushed or pushed through; but while I am on my feet I should like to make the general observation that other parties whom we hope will be signatories to the Geneva trade pacts are not rushing the matter, and perhaps the biggest unit of all the participants, the one who gave, perhaps, most of the initiative and the one whom we could not get along without, namely, the United States of America, have seen fit not to rush this matter of the Geneva trade pacts through their many bodies which have to consider it. It is needless for me to point out to this committee our comparative relationship in the matter of production as far as Canada is concerned with the United States as well as the matter of population, world economy and so on. I was hopeful, Mr. Chairman, that we would get more leadership from the larger units which are interested in these Geneva trade pacts before you ask of us or demand of us that we come to our conclusions. Now, if that is not possible we are entirely in your hands, Mr. Chairman, and we will go along as best we can. I think, sir, you can visualize the situation and look at it in a very broad sense and direct and guide your committee accordingly. If you purpose to put this matter through we are in your hands, that is all; but in the course of the next nine or ten months when the United States starts directing itself to this matter seriously, if something should happen which is adverse to Canada, I imagine our committee here must assume its full responsibility, and I place that responsibility, sir, squarely on the shoulders of those who are conducting this particular committee. Not that I expect any difficulty at all; but if something does happen I want my position to be abundantly clear that I was one of those who hoped we would have the signature of the United States of America to the completion of their work before little Canada with thirteen or fourteen millions of people took the leadership in this particular trade matter which, to my mind, is of great moment to us.

Before I sit down, may I say there is another group, Mr. Chairman, which feel they have not been invited to come here, namely, the Fruit and Vegetable Growers. Perhaps your secretary could clear up that point. The Fruit and Vegetable Growers feel they have not been asked to study the problem and to make representations. It is not our duty to make people come here on their own business; at the same time it might have been a nice gesture had the Fruit

and Vegetable Growers, under the leadership of their secretary-manager, Mr. M. M. Robinson, appeared before this committee. If you have heard from them, it is all right with me. It is their responsibility, because this matter of our meetings has been publicized, and if they do not care to make representations I do not see that there is any onus on you or those who are conducting this committee. At the same time, it is a big industry in Canada and it is one particularly concerned about imports—and not so much concerned, perhaps, about exports; nevertheless, it is a large part of Canada's economy.

Perhaps in our deliberations this morning Mr. Gordon might comment on the fruit and vegetable situation as far as Canada is concerned, because he would have had considerable experience trying to control them in days gone by.

In any event, I did want to have their name mentioned.

As far as our guest, Mr. Jones, is concerned, he is a manufacturer and he finds himself in a difficult spot in his own particular business, and he will be introduced to the committee by Mr. Bradshaw, one of our well known Ontario members of parliament.

That is all I have in my mind at the moment Mr. Chairman, and I reiterate what I said a moment ago, that we should not push this matter and afterwards, perhaps, have some regrets in some phases of the work we are doing.

The VICE-CHAIRMAN: Mr. Harris, with regard to the first part of your remarks, may I say this matter has been before the committee since March 11—

Mr. HARRIS: Yes, I understand.

The VICE-CHAIRMAN: And we have had regular meetings since the 13th of April. We have communicated with the Canadian Manufacturers Association, the Chamber of Commerce of Canada, the Board of Trade of Toronto, Le Chambre de Commerce de Montreal, the Fisheries Council, the Canadian Importers Association, the Canadian Exporters Association; and outside of the Fisheries Council none of these gentlemen have expressed a wish to make any recommendations or to make any wish to fight the agreement in any way, shape or form.

Your suggestion concerning the Fruit and Vegetable Growers is of interest because it is the first time it has come before the committee. Now, the officials of the Department of Finance and the tariff commissioner have been in attendance here all the time and any person who wished to put any question to any of those gentlemen was at liberty to do so, and I think I have given every leeway possible for the members of the committee to do so. If the committee wishes to hear from the fruit and vegetable people now, I am absolutely in their hands, but it seems to me that there is no rush being made in this matter; everybody has had an opportunity to say what he wants to say. I do not think it is the duty of this committee to go around fishing for anybody who wishes to make representations or recommendations. These people volunteer to appear before us, and we hear them.

Now, Mr. Timmins, are you ready to question Mr. Gordon?

Mr. Donald Gordon, Deputy Governor of the Bank of Canada, called:

By Mr. Timmins:

Q. Mr. Gordon, reading from the report of the Foreign Exchange Control Board for the year 1947, at page 6—and perhaps I should predicate my remarks on this—I find the following:

As noted in the previous report, the exchange control arrangements of the United Kingdom made it possible, commencing January 1, 1947, for Canadian exporters and importers to trade on a sterling basis, as an

alternative to United States dollars, with a number of non-sterling area countries in addition to countries in the sterling area. The list of non-sterling area countries covered by these arrangements was added to from time to time and by July 15, 1947, the United Kingdom had, for practical purposes, made the current sterling receipts of all other countries freely available for expenditure anywhere. On August 19, 1947, the United Kingdom announced, however, that it found it necessary to reimpose certain limitations on the transferability of sterling held by non-sterling area countries because of the heavy drain which this was causing on the United Kingdom's dollar resources. As a result, Canadian exporters could no longer obtain payment in sterling from non-sterling area countries and Canadian importers could no longer pay sterling for imports from those countries.

Now, it would appear from press reports, and very specific reports I have received from Canadian industry, that our Canadian exports to countries in the sterling area, other than the United Kingdom, are dropping very drastically. Some reports I have show that the dominance of Great Britain's trade in certain articles dropped off 75 per cent, 80 per cent, 90 per cent and 95 per cent, and in some cases in specific commodities, 100 per cent. A press report of last week is to this effect:

The consequent threat to Canadian prosperity shows ominously in the decline of British imports from this hemisphere from 49 per cent in 1946 to a prospective 34 per cent this year. The figure was 31 per cent in 1938.

Now, my question, Mr. Gordon, is: there seems to be a plan among the sterling area countries to deal among themselves because sterling cannot be convertible, and how is Canada going to get her exports into those countries, having regard to the fact that the sterling area countries are almost forced to deal among themselves?—A. Mr. Timmins, that, of course, is definitely true. That represents the fundamental problem of the so-called dollar countries of the world. These sterling area countries, headed by the United Kingdom, are short of dollars and unable to find the wherewithal to pay dollars for imports coming into their country—in those individual countries. That is to say, the exports which they are able to maintain, the productivity of the area, has been so seriously reduced as a result of war, devastation and so forth, that they are not able to earn enough dollars out of their exports to balance off against their heavily inflated requirements of imports.

Perhaps I might make the matter a little clear if I outlined what the sterling area is. I have a definition of the sterling area as used in the Canadian Foreign Exchange Control Board regulations:

Sterling Area Countries—

The United Kingdom,

Any British dominion and any other part of His Majesty's dominions except Canada and Newfoundland,

Any territory except Palestine in respect of which a mandate has been accepted by His Majesty and is being exercised by His Majesty's government in the United Kingdom or the government of any dominion,

Any British protectorate or British protected state,

Burma,

Iraq,

Iceland, and

The Faroe Islands.

That gives you an outline of the component parts of the sterling area at present. The list I have read is not exactly coterminous with the British commonwealth

of nations—but it is generally speaking, the British commonwealth of nations excluding Canada and Newfoundland, with the exception of Palestine and others mentioned therein.

The main characteristic of the sterling area is that it represents a voluntary association of members who are willing to hold their foreign exchange reserves in London; they are willing to take sterling and hold it on deposit in London.

Q. In other words, they make Great Britain their banker?—A. That is right. Britain is, to all intents and purposes, the banker for the sterling area, and the members of the sterling area as they receive any exchange other than sterling turn it in to the general pool and are entitled at the same time to draw out from the pool in respect of their dollar needs.

Now, as matters have developed, by reason of war, devastation and so forth, the needs of the sterling area countries as a group, and the United Kingdom in particular, have risen so substantially in respect of dollar imports that, as I said before, they have not been able to balance off against their receipts. In those circumstances, therefore, the United Kingdom as banker-manager of the area has worked out a policy whereby they have restricted or prohibited a very large number of imports which would normally come into the sterling area from dollar countries.

Q. They have really put on some controls the same as we have?—A. Absolutely, yes, only perhaps a good deal more stringent.

Q. Does that mean each of these dominions or colonies has put on separate controls, or does it mean one blanket control, or a number of blanket controls?—A. It means that each of the countries is theoretically free to determine itself what import restrictions they should impose, but in reaching that decision they are under pressure from the United Kingdom who point out to the different parts of the sterling area how serious the position is, and urge them to maximize the restrictions on imports which call for dollar payments. Perhaps to put it even more simply I might say that the general effect is that each country in the sterling area is expected not to be a drain on the central dollar pool. In other words, the United Kingdom says in essence, "You adjust your affairs in such a way that you will earn enough dollars from your own sales of merchandise or other services to get the dollars which you need to pay for your imports, and if you cannot earn enough from your exports then you should reduce your imports of goods to such an extent you will try to achieve a balance." In a very rough and ready way that is what the objective is. Of course, the actual working out of it varies considerably in each part of the area, but the general objective is the same. Each part of the area is expected to try to become self-sufficient in regard to its earnings and use of dollars.

Q. That is the reason that our goods cannot get into these sterling area countries?—A. That is right.

Q. They really have import restrictions against us?—A. In exactly the same way that we in Canada, for other reasons, have been obliged to conserve our foreign exchange resources consisting of United States dollars, and have been obliged to prohibit a great many imports, and to limit other imports from countries to which we have to pay United States dollars.

Q. Then the spirit of the Geneva Agreement we are dealing with is to make trade multilateral?—A. That is right.

Q. So that we can do more business with the sterling area countries and with all other countries, and so they can do more business with us, but as a matter of fact the situation in the sterling area countries and their import controls really nullifies and stultifies the spirit envisaged by the Geneva Agreement?—A. I would not say nullifies and stultifies. I think I would rather describe the contradictions as being for a temporary period until the world gets on its feet, and there is a somewhat better balance, so to speak, in the heavy unbalance of trade. Right now it will not be practical to see Geneva become a working

operation, but I should make this clear, that the kind of situation which I have just outlined in respect of the sterling area also applies to other countries. It applies to countries like France; it applies to other countries which are outside the sterling area altogether, but which because of their dollar situation have also been obliged to put on import restrictions. You see Geneva generally is really an attempt to lay down, to codify the rules of international trade in such a way as to result in world trade being increased to the greatest possible extent.

Q. It is a good plan for normal times?—A. It is an excellent thing that the rules of the game have been laid down in Geneva, but until such time as the world gets reconstructed in respect of the war, and individual sections of the world are enabled to reach maximum productive capacity it will not be possible, in my opinion, to get Geneva as an idea or as an ideal to work and function 100 per cent. In other words, there is a transitional period.

Q. I do not like to be monopolizing all the time here, but at present we have got three kinds of currency. We have got the United States dollar that the world is bidding for by way of exporting goods into the United States. We have got the sterling area exchange, and then we have got the Canadian dollar which seems to be in a third category all by itself. How are we going to get the Canadian dollar working into the general picture? I suppose it is the second most sought after means of exchange in the world today, but how are we going to get it working better so as to get more people wanting to sell to Canada rather than to the United States?—A. Well, now, I am not sure you are not a little twisted there. Are you talking of sales by certain countries to Canada?

Q. Yes.—A. We are, of course, anxious and willing to buy all we can. The more we buy from the sterling area the more we provide means of payment which they can use to buy from us.

Q. Perhaps I have not put that just the way I want it. I have read that various countries of the world have all set their hearts on being able to produce and sell in the United States and get American dollars. In so far as those countries are concerned they do not seem to be so much concerned about selling to us in Canada because they do not place the same value on the Canadian dollar that they place on the American dollar. Am I right?—A. I would not quite agree. I think it is fair to say the American dollar is the scarcest currency in the world today in respect of other countries of the world. The Canadian dollar is probably the next in the matter of scarcity, but to the extent we are willing to buy and our people are anxious to get goods of other countries I do not see any particular reason why those countries would not be willing to sell to us. I do not think that the situation as it stands now means that these other countries would adopt a policy of diverting exports from Canada because in most cases the Canadian dollars they receive are useful to them in respect of buying goods from us, and there are still enough requirements for Canadian goods around the world generally that most countries would be willing to acquire or receive Canadian dollars in return for their exports. It is, however, true that the outstanding fact in the world today is the need for United States dollars.

By Mr. Marquis:

Q. You have the American dollar, the sterling exchange currency, and do I understand that gold is accepted in the sterling area as in the United States for payment?—A. Well, I do not know if you can say that. Mechanically there could be a transfer of gold in exchange for goods, but for all practical purposes it is the same thing as payment in dollars. Gold is universally acceptable, and if the United Kingdom, for instance, did accept gold she would in turn ship it to the United States, so that it should be converted into United States dollars to provide the wherewithal to buy goods from the United States.

By Mr. Timmins:

Q. Let us suppose a firm in South Africa sold a goodly quantity of goods to Canada and got Canadian dollars, and then that firm wants to use those Canadian dollars for the purchase of something in the United States. What procedure would have to be gone through in order to convert those Canadian dollars into American dollars? What would happen?—A. You mean the South African firm has dollars in the United States?

Q. Yes. Is our money at some sort of discount in so far as South Africa being able to use it to purchase certain commodities from the United States, we will say?—A. It all depends. We would not allow Canadian dollars to be used directly for imports to be brought into Canada and shipped to South Africa, but what is the sequence you have in mind?

Q. I say a South African firm sells goods to Canada and gets Canadian dollars.—A. Yes.

Q. And then it wants to use those Canadian dollars which it has obtained to purchase some other commodity in the United States they want to use in South Africa. How are the Canadian dollars going to be converted into American dollars in order that the transaction for the purchase in the United States can be achieved?—A. What would happen in practice is that the South African exchange control would purchase the Canadian dollars from the South African exporter, and then the South African who wants to buy goods from the United States would be enabled to buy United States dollars from his control out of the proceeds of the Canadian dollars which he had sold. It is a perfectly easy transfer to make so far as the South African is concerned. If any South African comes into possession of Canadian dollars he can sell them to the South African exchange control. Then having received South African pounds he can go to his exchange control and say, "I want to import certain goods from the United States", and if they are of a character and kind permitted import into South Africa then he will be given United States dollars by the South African control to buy those goods.

Q. In the transaction does he lose something between the Canadian dollar and the American dollar?—A. No, only the handling charges which are very modest.

Q. He does not lose anything by way of exchange or discount or anything of that sort?—A. No, the Canadian dollar and the American dollar are at par in so far as the South African control is concerned. They would buy the one dollar and sell the other dollar at the same rate apart from the slight handling charge that is taken by the control in transferring one currency for another.

By Mr. Marquis:

Do I understand correctly that in South Africa they have to change the Canadian dollar to South African currency, and the South African currency into American dollars in order that they can get imports from the United States?—A. Yes. The South African control, to put it shortly, will swap Canadian dollars for American dollars any time.

By Mr. Dionne:

Q. Dollars are not a problem for South Africa; they have all the dollars they need?—A. Oh, I would not say that. I do not know of any country in the world that has all the dollars it needs. South Africa just recently has also had to put on import restrictions which indicates she is finding a dollar shortage as well as other countries.

Q. The other day I had a transaction to close with South Africa, and I asked them about their problem and they said that dollars are not a problem, that they can get all the dollars they need to buy what they require.—A. Were you speaking to the South African foreign exchange control or to an individual?

Q. I was speaking to an agent who is travelling all over South Africa and who is selling commodities from the Canadian market.—A. He probably would mean, that to the extent that anything is permitted to be imported into South Africa he has no trouble in getting dollars from his exchange control. The same is exactly true in Canada. For any import from dollar countries for which Canada permits entry the Canadian foreign exchange control board will put up American dollars for it without question.

By Mr. Fraser:

Q. May I ask if a transaction of that kind has to go through the international bank?—A. Oh, no.

Q. It does not?—A. No, it has no bearing on that whatever.

By Mr. Timmins:

Q. It seems in so far as the Geneva Agreement is concerned it is tied up absolutely with the International Monetary Fund and with the world bank. In other words, these trade arrangements cannot work unless we are all bound by the same standards. Is there such a thing as the world bank today?—A. Yes, there is—what is the technical name?—the International Bank for Reconstruction and Development.

Q. Is that bank functioning?—A. It is functioning. The main purpose is that that bank will under certain conditions make long term loans to individual countries for productive purposes. It is a bank which operates to make specific loans to individual countries for purposes that are outlined as acceptable under the bank's policies.

Q. The countries of the world will not be able to make the Geneva Agreement work and they will not be able to make multilateral trade work until they find some means of international exchange. I wonder if you could develop that for us and tell us what the future may hold, or what is envisaged that may take place that will cut across these obstacles that are in the way of world trade?—A. That is a pretty large question. I do not know if I am competent to answer it.

Q. I wanted to predicate my thoughts upon the fact the sterling areas have got a system of their own working, and we have got to break that down in some way if we want to get trade going again.—A. In part that is right. I have no doubt in the evidence this committee has had before it you have had various definitions of what the Geneva trade charter is all about. I do not profess to be an expert on the technical details that have gone into that agreement because, as you know, from listening to witnesses it is a very technical matter in point of detail, but putting it in very rough and ready language the Geneva Trade Agreement is an effort to set an ideal in the matter of codifying the rules of international trade in such a way as to remove barriers to trade; in other words, to have a system whereby it will be ensured that artificial barriers or artificial restrictions of one kind or another will not operate so as to reduce the grand total of world trade. The tremendous step that has been taken in Geneva, in my own layman's understanding of it, is that for the first time there has been agreement on a set of rules as to what is the decent and proper thing to do in international trade relationships. In given circumstances when difficulties arise the countries have agreed as to what would be appropriate correctives to apply and still not reduce any more than necessary the grand total of world trade. I speak with due deference to Mr. McKinnon who is sitting here, and who can do this much better than I, but that is the sort of rough and ready approach to it that I would take. It is

realized also all through that in setting that ideal pattern, in getting countries to agree what are the rules of the game, it has always been realized the rules could not work until the world was rehabilitated in such a way as to make it possible, until we had an atmosphere in which those rules could possibly work. The great stumbling block has been and still is that the world is in a chronic condition of shortage of United States dollars, and I should say Canadian dollars, too. It is really a dollar shortage. It is more spectacularly focused on the United States dollar but it is true in regard to the Canadian dollar, too.

A number of international organizations have been set up, again for the same major purpose. The International Monetary Fund is a case in point where we have an international organization which deals with the question of currencies. There are four main purposes that the International Monetary Fund has in mind. First of all it provides a forum for discussion by the members of the fund about the impact of their respective currency policies on the rest of the world. For the first time it has been recognized that the fixing of a rate of exchange by any individual country is not a matter which affects only that country. It is a matter which has very serious and definite international repercussions on trade, and therefore through the International Monetary Fund we have for the first time a place where the members of the fund, the various countries represented in the fund, will sit down and discuss their difficulties and give other countries an opportunity to make suggestions, or to lend advice and assistance and what not. That, of course, in itself will contribute to exchange stability, and we get away from the sort of competitive depreciation that was a common thing in the 20's and the 30's.

There has been reference at one time or another that within the orbit of the fund rules any country can make changes in the par values of their currencies up to 10 per cent. That is true, but it does not mean that a country is simply free to do that without consultation. It is expected that they will consult the fund. The point is that any individual country can have a 10 per cent leeway in the fund, and the fund has no right to object to that much appreciation or depreciation in the value of a currency, but in the practical working of the fund in all likelihood there would be consultation in respect to that kind of a change, too.

Then there are a number of other things which the fund operates to do. There are undertakings from the various members not to impose restrictions on current transfers and payments and so forth, again within the general agreement that is represented by the fund agreement.

Then lastly, of course, there is a very large amount of individual currencies in the hands of the fund which would enable members to tide over temporary difficulties. It is possible for members who are in temporary trouble with their balance of payment situation generally to borrow from the fund, and thereby tide over a temporary situation. It is not intended that the fund should be used to correct what is a chronic and continuing disequilibrium in any country's individual balance of payments, but it does mean if they are in temporary difficulties they will not be forced to take restrictive action, and that by having access to the resources of the fund they can tide the matter over and give an opportunity for the kind of consultation, etc., which I have mentioned.

Fundamentally, to go back to my first point, these international organizations and Geneva are all aimed at the idea of getting world trade to the highest possible volume having in mind if that is done it will have the effect of raising the standard of living throughout the world, but until we get the damage of war corrected, and these various countries which have been so devastated back on a producing basis, so that they can out of their own production develop

enough export surpluses to pay for their import requirements, we will not be able to get the ideal of complete multilateralism in world trade worked out. That is again essentially the reason for the European recovery program. The European recovery program in essence puts dollars at the disposal of countries who are short of them, and enables them to continue buying essential imports which they must have to reconstruct their individual countries. That is the hope and the objective, in connection with those funds which are being made available through the European recovery program—incidentally, I should add the credits which the Canadian government have put forward to these individual countries are exactly the same kind of thing as the European recovery program. We have had a European recovery program operated through the credits which have been established, and the hope and expectation is that with the use of these dollars those countries which are now heavy deficit countries in respect of United States dollars and Canadian dollars will, as I said before, achieve sufficient production as to be able to stand on their own feet. When that time comes, and when the great majority of those countries are in that position then it will be possible to see whether or not this Geneva Agreement can be made a working model. The tremendous feat that has been accomplished, and I do refer to it as a tremendous feat, is that the countries which have signed the Geneva Agreement and later confirmed it at Havana have reached—is that the technical term, “confirmed at Havana”?—I do not know; in any event, they are signatories to the agreement—an understanding and acceptance of rules of conduct in respect of the operation of international trade, so that when the world is re-established on a basis to make it workable those rules of the road will apply, and we will get on with general business.

Q. Mr. Harris wants to ask some questions, but I have one more question following that. I take it there is not anything in the International Monetary Fund or in the world bank which in a direct way will help countries with the economy of Canada to increase its trade. We cannot look for any help there, can we? It is there to help us if we get into further trouble, but at the present time there is not anything we can look for there?—A. I do not think it is appropriate in our present situation to turn to the International Monetary Fund for help.

Q. What you say in effect is it is the productivity in the various countries themselves along with the help of E.R.P. that is going to start world trade moving?—A. That is right, because the conditions which E.R.P. sets out to correct are not the kind of temporary conditions which are envisaged as a reason for going to the International Monetary Fund. There is a fundamental disequilibrium in the balance of payments of these individual countries which can only be corrected through long term measures such as reconstructing their plant equipment, reconstructing their transportation, reconstructing other war damaged situations. These needs have meant that they have not been able to reach the total production which would give them export surpluses to pay for their import requirements. The fund of itself cannot cure that.

Mr. HARRIS: Mr. Chairman, I think we are all very appreciative and perhaps all imbued with the same idea that our witness has, namely, that we want to be practical, and we are all anxious to make the Geneva Agreement work, but I am of the opinion we must face up to this problem, namely, the dollar, whether it is American or Canadian, versus sterling. Within the departments of government at Washington and the departments of government here at Ottawa, and even in Britain they have monetary funds and so on, but I was rather amazed at the limitation of 10 per cent which was put on according to the witness with regard to the leeway, whereas at the same time those units of currency exchange and trade exchange which do not pay too much attention to what is happening in governments and which are working through our banking organizations, not to circumvent the International Monetary Fund and these

other ideas but perhaps to implement and help them, are still carrying on and doing business. That is a difficult statement for the members of the committee to absorb but let me explain.

Is it not a fact that our Canadian banks which have offices in the United Kingdom—I am thinking of London particularly—will in Canada advance substantial bank overdrafts to Canadian organizations provided that the home companies, namely, the companies in the United Kingdom in turn will deposit substantial blocks of sterling with the Canadian banks, and with the approval of the Treasury Board of the United Kingdom? If they will deposit substantial blocks of sterling is it not a fact the Canadian banks in turn will allow overdrafts to some concerns which deposit sterling in London, will grant overdrafts which can be drawn against here in Canada in Canadian dollars? Is that not a fact? If the witness says that is a fact, I should like him to tell us.

Now, Mr. Chairman and gentlemen of the committee, this has nothing to do with this 10 per cent leeway in the monetary fund. This is another agency which is helping to develop Canada and to develop trade between Canada and other parts of the world, particularly the United Kingdom. Incidentally, it is making jobs by the establishment of off-shoots of industries in the United Kingdom right here in Canada. I was hoping the witness might elaborate a little on it. It is hoped we, in Canada, can develop our own country through the establishment of industries by this means.

Just as an aside, for the benefit of the committee, there are oodles of pounds sterling lying idle in the United Kingdom. There are millions and millions of pounds sterling in the United Kingdom. They cannot eat them, and they do not know what to do with them. In the old days, fifty years ago, they used them in the colonies, the dominions and so on. The present tight situation so far as finance is concerned, Mr. Chairman, is driving those pounds sterling to Rhodesia and to India. Just yesterday a substantial amount, three or four million pounds sterling, went to India and, within the past few weeks, some have gone to Nigeria. These pounds sterling are going to South Africa. When Australia settles down to business again, after the advent of the present administration, more and more pounds sterling will go to Australia and more and more to New Zealand.

This is what worries me, Mr. Chairman. The extent to which this is going on so rapidly now, in my opinion, means we are fast becoming two units in the world civilization, one of which is sterling. We are forcing sterling to a place where sterling is accepted in exchange for commodities. We are not able to bridge this gap to make sterling convertible for the development of our country. We are doing something. I am surprised at the 10 per cent, but it is not nearly enough. However, we are doing something to help sterling find its way into Canadian dollars.

There is a movement, I am sure the witness knows about it and I think he ought to tell the committee about it, by the treasury board or whatever body controls the currency in the United Kingdom, to accept large deposits and, when I say large deposits, I mean this; to the extent a pound is deposited and a Canadian dollar is received back. Those charged with the handling of affairs in the United Kingdom are willing to place a pound sterling with the treasury board in the United Kingdom. This is a very vital and very important movement in my opinion, and I should like confirmation of this, those who control the finances in the United Kingdom are willing to take a pound sterling and release a Canadian dollar for the development of our country. At the same time, is this not a fact, the British treasury is accepting a deposit of a pound sterling, that same pound sterling which is at a discount of 10 per cent and perhaps the witness will tell us what per cent it is here. 20 per cent in Australia. 10 per cent in South Africa and what not; they are getting their

full value of the premium on the pound sterling in the development of other parts of the Commonwealth whereas we, in Canada, adhere so religiously to the dollar position that we find our friends in the United Kingdom are only to get a dollar for a pound which is deposited overseas.

Now, Mr. Chairman, that movement, as I read it and understand it, may have the good wishes of Mr. Gordon's department and the good wishes of all government controlling agencies of various kinds; the good wishes of the Monetary Fund which is only allowing 10 per cent, but it is another movement apart from matters over which you and I are supposed to exercise some control. Nevertheless, that movement is going on now. I know it is going on now. About £95,000 sterling are lying in London now while the development here of \$25,000 has taken place, a dollar for a pound. All this must be within the knowledge of the honourable gentlemen who are conducting the financial affairs of Canada. I am asking, Mr. Chairman, that you do not discourage or stop that because it is developing Canada's exports, Canada's imports and it is another avenue of which, sir, perhaps the members of this committee are not cognizant. I do hope that has the approval of the powers that be as represented by our witness to-day. I do hope I have made myself clear. I have asked, perhaps, eight or ten questions, but I would appreciate it if Mr. Gordon would, perhaps, elaborate a little on this and tell us about it. We are anxious to develop our Canada. We are in a tight spot Mr. Chairman by reason of sticking to the dollar and leaving sterling. Twenty years from now, sterling will be pretty nearly up to the top and I hope the dollar will be close to the top.—A. As you suggested, yourself, I think there are quite a number of considerations involved in what you have just said.

Q. Quite.—A. In the first place, I think I may have confused you by reference to the 10 per cent leeway in the International Monetary Fund. That has no real bearing whatever on the point you are just making. All I intended to suggest there was that, under the rules of the International Monetary Fund—

Q. Would you say it would go as high as 50 per cent?—A. Let me just explain. Under the rules of the International Monetary Fund, a member country may alter the value of its currency within a limit of 10 per cent and the Fund, as such, has no right to object to that action. However, with consultation with the fund, a member country may move to any point agreed upon.

By Mr. Hazen:

Q. Did the fund agree in the case of France?—A. In the case of France, the fund did not technically agree in regard to what France did. There were certain phases of their action with which the fund did not agree but France went ahead in any event; that is one of the first cases, so to speak, which will be under discussion.

I am just touching now on the rules of the fund as they stand. This reference to the 10 per cent, if you will forgive my saying so, should be washed completely out of the consideration you have here. It has no bearing on it.

The second point, if I follow you correctly, I should make clear is that any person in the United Kingdom or industry may operate in Canada if it has the permission of the United Kingdom Exchange Control. They have to have the permission of their own fund to operate in Canada.

By Mr. Harris:

Q. Is there any ratio established for that?—A. No. Furthermore, any United Kingdom citizen may send capital to Canada if the United Kingdom Control will provide the dollars for him to do so.

Q. Is not that rather a forlorn hope?—A. Wait a minute, Mr. Harris. You must remember Canada is a country interested in maintaining trade with the United Kingdom and the sterling area and also interested in having the

United Kingdom continue such capital investment as she may wish to make in our country. To this end, we have put up very, very large sums of Canadian dollars in the form of loans and grants. We authorized \$1,250,000 of credit in 1946, of which a very substantial amount has been used. We did not attach any strings to either loans—there were other loans previous to that—either loans or grants. We attached no strings as to how the United Kingdom authorities should spend those dollars in Canada. It is entirely in the hands of the United Kingdom authorities, themselves, as to whether or not they will permit those investments to which you referred.

Q. Those loans were for wheat and bacon?—A. There has been a lot spent on food, yes. Perhaps I should explain here—

Q. It was supposed to be for wheat and bacon?—A. On that \$1,250,000 credit, there are no strings attached at all. They have used a great deal of it for food, as you say.

I will tell you one thing more. I am not quite sure whether I am in order in putting this on record, so to speak, but I will take a chance. You may remember there was a \$700,000,000 interest free loan granted to the United Kingdom some years ago. The general understanding at that time was that the proceeds of any Canadian securities which were held by the United Kingdom residents would, as they were liquidated on the market, be applied against the \$700,000,000. While there is no compulsion whatever on the United Kingdom to sell these securities, in the natural course of events, United Kingdom residents who had some Canadian securities, due to the need for money by individuals or estates being settled and so on, sold these Canadian securities. There is a constant flow of Canadian dollars coming from the sale of these securities in the market.

These Canadian dollars which come into the hands of the United Kingdom Exchange Control are, by agreement, applied against the \$700,000,000 interest free loan.

By Mr. Dionne:

Q. What is the balance left on this loan?—A. I have not the figures in my mind, but it has been written down by \$200,000,000 or \$300,000,000 out of the proceeds of these sales. The United Kingdom has been told, to the extent she wishes to authorize new capital investments in Canada by United Kingdom citizens, she may use these dollars for that purpose instead of writing down the loan. In other words, these dollars are available to her out of liquidations for the purpose of Canadian capital investments by her citizens.

By Mr. Blackmore:

Q. That is, the remainder of the \$700,000,000?—A. These dollars which would be applied in payment of the \$700,000,000.

Q. The dollars she would derive from the sale of securities?—A. Yes, she may use those dollars for new capital investments or the expansion of existing capital investments. The United Kingdom may authorize the use of these dollars for that purpose, so there is a means and quite a generous means whereby the United Kingdom authorities, if they wish to do so, can authorize capital investments in Canada.

Now, touching on your second point, I think it is perfectly true there have been exports of capital from the United Kingdom to sections of the sterling area. These have been facilitated by reason of the fact it is, perhaps, easier to get that permission from the United Kingdom authorities than it is to get permission to invest dollars. However, that is a matter which is entirely for the decision of the United Kingdom authorities. It is not something Canada can influence, except to the extent we have already influenced it by making dollars available to the United Kingdom.

By Mr. Harris:

Q. At the end of any particular period, it is pretty hard on Canada. In other words, it is much easier to get sterling for South Africa than it is to get sterling to be converted into Canadian dollars and have them flow to Canada?—A. I say it, apparently, has been the case.

Q. I realize you cannot speak for the United Kingdom?—A. That is what I am saying. Apparently, it has been the case that the United Kingdom government has felt it to be less burdensome on them or better policy to authorize the transfer of sterling to those areas than to authorize dollars for investment in Canada. However, that is a matter of United Kingdom government policy. All I am pointing out is that there are enough facilities existing in respect of dollars. If the United Kingdom felt that it was highly desirable in her own long-term interest to establish capital investments in Canada which will, in due course, provide her with dollar earnings, facilities have been provided for her to do so.

Q. I wish there was some urgency which served to tickle their feelings?

By Mr. Blackmore:

Q. The reason why the United Kingdom would probably consider it preferable to transfer her pounds to South Africa would be that South Africa would be in a position to buy more British goods than Canada would be able to buy?—A. I do not think that has been the restrictive factor because we, in Canada, have been eager to get much more goods from the United Kingdom than she has been able to provide.

Q. My idea is this; it is not that we lacked the willingness but, quite obviously, having developed our manufacturing to a high degree as compared with the manufacturing of South Africa, there would be many things which we are producing ourselves which South Africa would not be producing for herself?—A. That may apply to some extent in respect of consumer goods for current consumption. I think I should make two qualifications; one is that the Canadian demand for United Kingdom consumer goods has been away in advance of supply during the post-war years. The second point is that which Mr. Harris was developing, as I understand it, the reference to capital investment and the transfer of capital to establish plants, of United Kingdom parents.

For example, I think it is true to say there has been more assistance, if I may put it that way, given by the United Kingdom government to the establishment of such developments in sterling areas than appears to have been given in the case of Canada. I say that with considerable reserve because I cannot tell you exactly what has been the case, but I share Mr. Harris' belief it is the case.

Q. What I am doing is probing for some light on this whole matter. I am trying to think my way through from the standpoint of ordinary commonsense. I am not familiar with the industrial development of South Africa, but I would judge there are not nearly so many textile establishments in South Africa, for example, as there are in Canada?—A. Yet, at the same time one of our most intensive demands from the United Kingdom at the moment is in the field of textiles. We could increase our import of textiles from the United Kingdom today by 200 or 300 per cent more than she has been able to supply.

Q. There is a danger in our confusing between capital investment and consumption?—A. I am referring in this case to consumer goods.

Q. We, in Canada, I would imagine, would not offer a very attractive field for capital investment in the textile industry?—A. That could be a very competitive field. In Canada, now, we have well established textile industries which would provide stiff competition for any new industries.

Q. Which are probably able to provide more than our people could use under normal conditions?—A. Yes, although my recollection is Canada is still a deficit country in respect of textiles. We still import a lot of textiles to meet our normal demand.

Q. Of certain types, but of other types we produce more than we use?—A. Yes, but in those cases we would become exporters.

Q. I do not know the exact figures, but I believe we have something like 40 textile plants in Canada?—A. Yes, that is true, although the over-all picture is we are considerably short of textiles. We are heavy importers both from the United States and the United Kingdom.

What has happened is this, and this is rather typical of the reasons for the difficulties with which we are confronted today. Pre-war, we were very heavy importers of textiles from the United Kingdom. During the war, the United Kingdom was not able to produce and, furthermore, there were reasons of shipping and one thing and another which made it impossible for us to get these goods from the United Kingdom. Therefore, we turned to the United States, particularly in the field of cotton imports. We increased our imports from the United States enormously. This was also influenced by the fact that, in war-time we had agreed on various types of allocations of goods through war-time Boards. The United States became a major supplier of textiles of different types which had not been the case previous to the war. The result was that our imports from the United States which cost us United States dollars mushroomed and reached a very large total, while our take from the United Kingdom was very much reduced.

How great was the effect of that? In the restrictions which were put on on November 17, we were forced to reduce our imports from the United States in textiles to about 32 per cent of what we were taking in the year ending June 30, 1947. Applying the same rule, in terms of pre-war volume, to imports from the United Kingdom, we can take upwards of 400 per cent of what she was able to send us in the year ending June 30, 1947. To the extent that trade has switched over to the United States, that means the United Kingdom has not been able to earn dollars from Canada which she, in turn, could have used to buy goods from us. It also had an influence on us because, to the extent we did not get those goods from the United Kingdom, we got them from the United States and that cost us United States dollars. So that was one of the reasons for the restrictions; to close down or restrict imports from the United States and to increase imports from the United Kingdom to get ourselves into better balance.

Q. One of the difficulties the United Kingdom probably faces is that, because of her own shortage of dollars it is more difficult for her to obtain from the United States raw materials with which to manufacture the textiles?—A. Yes, in part, that may be true.

Q. Just a moment more on that matter of capital investment. It would probably be safe to assume, in the light of what we have said thus far that Great Britain, if she desired to invest capital in the textile industry, would be inclined to go to South Africa to invest it rather than to Canada where she would have to meet so much competition?—A. I would not care to answer that question because it depends so much on the facilities which South Africa would be able to offer. I do not know, from the standpoint of general facilities whether South Africa is a better place to establish a textile industry.

Q. I find in the west and, pretty well all over Canada, there is an idea that Great Britain is discriminating against us, turning the cold shoulder on us when, as a matter of fact, what she is doing is the result of economic laws over which she has no possible control. Just as soon as we come to understand that, then we will begin to seek economic causes rather than blame Britain because she reacts to them?

By Mr. Dionne:

Q. Mr. Gordon, you just said we could absorb 200 or 300 per cent more textiles than the quantity imported last year. According to the reports in the newspaper, we imported about 275,000,000 yards of textiles last year which amounts to a little over 22 yards per person, including babies, not taking into account Canadian production. I should like to ask you to substantiate your declaration in which you said we could import 200 or 300 per cent more than last year?—A. I am just basing that on the actual circumstances when I use those figures. I am using them in the over-all sense. There are certain types of textiles which we do not want and do not need. However, there is still a very heavy demand for other types such as British woollens, for example. It is certainly true we have not yet reached the pre-war total of imports from the United Kingdom.

Q. I do not think we will ever reach it?—A. Mind you, to the extent we increase our imports from the United Kingdom along certain lines, we will probably reduce our dependence upon the United States.

Q. I do not think we will ever reach the total of pre-war imports of goods from England so far as the textile industry is concerned, due to the modernization and expansion of the Canadian textile industry. Now, the export market is closed to the Canadian textile industry and many others. You cannot export to Australia, New Zealand, British West Indies or India. You cannot export textiles and many other items to those places.

Mr. BLACKMORE: What does Mr. Dionne think is the reason, Mr. Chairman?

Mr. DIONNE: I do not know the reason.

The WITNESS: You are talking about export controls, now?

Mr. DIONNE: I shall give you an example. In the House of Commons the other day, we heard an order for over \$100,000 worth of textiles was turned down by the government of India. I looked up the record and I saw we exported \$4,000,000 worth of goods to India last year and we imported \$10,000,000. I asked the Minister of Finance about it. I said, how is it these Canadian firms cannot get the money to pay for this order of textiles? He did not know. I told him in the House of Commons I took it for granted this \$6,000,000 had gone to England. I have had no answer as yet. Gradually, the sterling area is closing the market to Canadian goods. Anyone who is familiar with trade will admit that.

The VICE CHAIRMAN: Following up your idea, Mr. Dionne, the goods which are available for export would be used in Canada and, therefore, reduce the amount it would be necessary to get from England, is that it?

Mr. DIONNE: The goods which are available for export here, we cannot sell in Canada because they are manufactured in such large quantities.

Mr. BLACKMORE: Would Mr. Dionne mind naming one particular kind of textile?

Mr. DIONNE: All kinds of textiles we are importing from England. You can take it for granted that when you have English goods on the Canadian counter and you compare them with Canadian goods, the English goods will have the preference in most cases because the consumer has been educated to the idea that English goods are better than Canadian goods.

Some members of parliament with whom I was talking yesterday were declaring positively there was no comparison between the suits they were getting made out of Canadian materials and the English materials. They went so far as to tell me that leather could not be properly prepared in Canada. They said the leather was sent to England, prepared and sent back here.

This idea has been adopted by a large portion of the population. Most of the up-to-date ladies when they go to Morgan's, Eaton's or Ogilvie's, and are told this material is imported from England; it is the London style, will forget about Canadian goods right close by even if it is better quality and will give preference to the English goods. We are favouring the English market. I do not know if England is responsible for it, but the sterling area market is being closed to us.

MR. BLACKMORE: What I am wondering, Mr. Chairman, is this—

THE VICE-CHAIRMAN: Are there any questions to be asked of Mr. Gordon? This discussion is interesting, but Mr. Gordon is here and I should like to release him before lunch time if possible. Are there any questions anyone wishes to ask Mr. Gordon?

MR. BLACKMORE: I am trying to use Mr. Gordon as the last court of appeal; I want to trace this thing out and let him listen and correct us if we are wrong in our deductions. I am wondering—and my wonder arises from having met on the train at Easter a representative of an English firm producing goods—I am wondering whether or not their turning away from us is not the result of their commitments under this Geneva trade agreement, because this man told me something I hardly dare mention without being able to verify, that because of the commitments which Great Britain had entered into in this Geneva trade agreement it was impossible for them to sell their goods in Canada at prices at which they would otherwise have sold their goods and consequently he was going home without orders after travelling throughout Canada, although they had an abundance of supplies.

MR. DIONNE: How can you explain that the English goods that are being offered on this market are sold between 30 and 40 per cent cheaper in England than to the exporters?

MR. BLACKMORE: He touched upon that very thing. I am sorry I did not know enough about it—but he touched on that very thing; he said it was impossible for them to sell in Canada at the rates they would have been willing to sell at.

MR. DIONNE: Because they are asking too much money for their goods. Last year there were 102 textile firms in England, and they have tremendous plants; when you talk about textiles in England you are talking about real plants and the profits they made out of their business was 14·71 per cent. They have never made such profits from 1920. That is the only year for which they had a comparable revenue and their market last year was mostly confined to the sterling area. We did not have much, according to Mr. Gordon—he has just confirmed it—we did not have much of this material. They were selling their textiles at prices much cheaper than they offered them here. If I had brought my papers with me they would have shown you that rayon goods sold in the English market at 45 pounds and we are being asked 59 pounds for them here.

MR. BLACKMORE: This is right in line with what this man said. He said the reason they were doing that was because of some commitments under the Geneva trade agreement.

THE VICE-CHAIRMAN: This discussion is most interesting, but you should ask your questions of Mr. Gordon directly instead of giving evidence yourself.

MR. DIONNE: If the agreement compels England to sell her goods for export at 50 per cent higher than her home consumption I do not see any benefit derived from this agreement.

MR. BLACKMORE: I am doubtful about the benefits of this agreement.

MR. DIONNE: I do not think this has been contracted with this idea in mind. In addition to what I was saying, the raw material—

The VICE-CHAIRMAN: Mr. Dionne, have you any direct questions to ask Mr. Gordon?

Mr. DIONNE: I am sorry to say, frankly, that I am not a master of the English language, so please do not feel offended if I use words which may sound a little rough. I cannot believe you are right when you say we could absorb 200 or 300 per cent more material than we imported last year. Last year I am told we imported 275,000,000 yards of textiles.

The WITNESS: The fact is, Mr. Dionne, if you look at the adjustments announced in the budget there was a reduction in the British tariff in order to encourage or help the British sale of textiles in Canada. What you say is true; their prices had retarded imports by Canadians. Canadians were finding the laid-down prices of British goods in the Canadian market pretty high as compared with domestic or United States manufacture, and that adjustment was an effort to help the competitive price factor and increase sales in the Canadian market. Now, I shall not labour my point. I state my belief that if the British could produce—if the British had a surplus to supply, the Canadian market would in fact absorb a very large increase in textiles, particularly having in mind that since November 17, 1947, we have restricted the imports of textiles from the United States. It seems to me to follow in logic, that having cut down by 68 per cent the imports we were taking from the United States the Canadian demand would be bound to turn to the United Kingdom because our domestic supply is not adequate to meet that demand.

Mr. DIONNE: This demand from the United States last year was unusual on account of the shelves being empty and the Canadian industry could not fill the shelves. I do not expect we will ever witness such a buying spree as we had last year. That does not concern only textiles.

The WITNESS: The fact is that we are buying all the British textiles they can supply. The evidence in Canada is we would buy considerably more if we were able—

Mr. DIONNE: That is not what I hear. I hear that the buyers do not want to buy the English textiles because of the very high price.

The WITNESS: Yes, the price is a factor.

Mr. DIONNE: I am not ready to admit that the government is 100 per cent overproof when they introduced that legislation of dropping duty on textile goods because if England needs more trade and wants Canada to absorb the goods they should drop the price on the local consumption instead of selling their goods here at fancy prices.

The WITNESS: I have no quarrel with your opinion.

Mr. DIONNE: No, I am not quarrelling with you; I am just not ready to accept that view.

Mr. TIMMINS: They can get much fancier prices in the United States for the same commodities.

The WITNESS: I doubt it. I think what Mr. Dionne says is right; there has been a consumer resistance against the high price of British textiles. We could probably absorb more textiles in this country right now if the price was more reasonable. I carefully mentioned that the change in the tariff was an effort to help them get their price in our market closer to the competitive price.

By Mr. Timmins:

Q. I know many cases of Canadian importers who were desperate to get textiles and who turned immediately to the English market as soon as the import controls came on.—A. That is right. There is a big demand.

Q. They have not been able to get those orders filled that they placed away back in October and November.—A. That applies to certain types; there have been other types that have been available and which our consumers resisted because the prices have been too high.

There are one or two points I would like to go back on. You referred to the sterling area and to Canadian goods. You must have in mind that for exactly the same reason the United States exporter in a lot of lines of goods can make the same objection to Canada, because we are doing the same thing; and the reason in both cases is the same: we are short of dollars and the United Kingdom is short of dollars. Canada is short of dollars for a number of reasons, and our import restrictions have had the effect of closing or restricting the American market to a number of United States imports.

Mr. HARRIS: That also applies to the United Kingdom.

The WITNESS: In a minor part. That is due to technical reasons covering the non-discriminatory approach to restrictions.

Mr. DIONNE: I think this idea of being short of textiles has been created by people who have come into the trade since a year or two and wanted to build up a situation to handle textiles and took advantage of the shortage of textiles that existed in Canada at that time to get orders. Now, when they came to the Canadian manufacturers they were likely turned down with the answer, "We cannot supply you with the goods you need"; because these Canadian textiles have had their natural outlet for years, and they were not ready to accept orders for \$100,000 or \$75,000 of the same kind of material from strangers who wanted to compete with the natural outlet of the Canadian manufacturers. I think that is why we have heard of Canada being short of supplies.

The VICE-CHAIRMAN: Now, gentlemen, we have been going on with this discussion for about an hour, but the purpose of our meeting was to hear Mr. Gordon discuss the general situation with relation to the Geneva agreement. We seem to have gone a long way from that.

Mr. TIMMINS: I think we all still have some questions to ask Mr. Gordon as to the general application with respect to the Geneva agreement. The point is, may we continue with him now?

The VICE-CHAIRMAN: We can continue with questioning; but I wish the members of the committee would refrain from making speeches. If they want to make speeches we will have another meeting later on when Mr. Gordon is not here.

Mr. BLACKMORE: Mr. Chairman, I know why you are worried; you are afraid that we are not using Mr. Gordon's time properly, but one of the vital things we have to know in respect to this treaty is that, if it is not now working, why is it not working now? What is the reason why the sterling area is being closed against our exports?

The VICE-CHAIRMAN: I think Mr. Gordon has already answered that question. You may put it to him again.

Mr. BLACKMORE: But Mr. Dionne's observations do not seem to be in harmony with Mr. Gordon's general observations, and that is why we have probed into the matter.

Mr. DIONNE: He answered that.

Mr. PROBE: May I ask a brief question of Mr. Gordon? In connection with our Foreign Exchange Control Board transactions, the American dollar with respect to the Canadian dollar is at par and yet at the same time with respect to what can likely be voluminous transactions in the free exchange market at New York the American dollar has a varying premium of from 8 to 10 per cent. Would Mr. Gordon comment with respect to Canada's position as

an international trader, whether this double market, the official and the free market have a disadvantage or an advantage to the Canadian position?

The WITNESS: The unofficial market in Canadian dollars which operates in the United States, mainly in New York, really is a very limited market. It represents Canadian dollars owned by non-residents—for my immediate purpose that is an American resident—and those Canadian dollars have come into his possession by reason of various permitted types of transactions, particularly the sale of capital assets in Canada. When an American comes into possession of Canadian dollars, if he has no other immediate use for them in Canada, he will seek another American resident to whom to sell them. That constitutes what we call the unofficial market—a market that exists between non-residents. No Canadian is permitted to deal in that market. It is for non-residents with Canadian dollars and those Canadian dollars that are traded in are for limited purposes; they cannot be used to pay for Canadian exports, for example.

Mr. HARRIS: Does the same thing apply to the pound sterling?

The WITNESS: Yes, the unofficial market is for limited purposes sterling notes. But the rate in the unofficial market for dollars has really no bearing in respect of the trade transactions going on. That market handles practically no transactions arising out of trade.

Mr. PROBE: You would not care to hazard the daily average of the trading?

The WITNESS: No, it fluctuates greatly. I would say that on the volume of transactions over the year—I am taking a guess—it would be of the order of 3 or 4 or 5 per cent of our total transactions.

By Mr. Timmins:

Q. Mr. Gordon, right now Canada and Newfoundland are the only two countries in the British empire which apparently are not in the sterling area? —A. That is right.

Q. In as far as the British preferences are concerned, although they may work in our favour, not being in the sterling area apparently is the big block which prevents us from selling our goods and exporting them into these various dominions and countries which form the British empire and the sterling area? A. That is a very important point and I am glad you brought it up. To answer it, we have to ask ourselves why we did not join the sterling area.

Q. Yes, that is what I am coming to.—A. In the first place, if Canada were to join the sterling area we would give up control of our own expenditures of dollars; we would not be free ourselves to determine what we would use dollars for, because all the dollars would belong to the central pool.

Q. We would be governed by the bank in Great Britain?—A. Yes, the United Kingdom is the banker of the sterling pool and would have the right to express views to us as to what we would spend our dollars on. Technically the United Kingdom permits the individual members of the sterling area to make their own decisions as to what they will do without when they put on import restrictions. The fact of the matter is, however, that if the dollar pool is running low the United Kingdom would have a perfect right to say in what way they should restrict their imports. Now, the second point is—

Mr. BLACKMORE: May I interrupt? You used the word “they”; that *they* would have a perfect right to say.

The WITNESS: The members of the sterling area. I am dealing now with a look-see of what would happen if Canada became a member of the sterling area.

Now, in the second place, if we joined the sterling area that does not mean in any way that the United Kingdom would be able to buy everything in sight from Canada because if we sold goods to the United Kingdom for pounds

sterling and accumulated those pounds sterling, since we would not have a use for them, then it has the same effect as giving credit to the United Kingdom, of extending more credit; and the real essence of the thing is how much credit can we afford to give to the United Kingdom. It does not mean that we could allow the United Kingdom to take all our goods at any rate she chose.

The next thing is that the United Kingdom itself would, in all probability, not wish to set up a mounting debt to Canada which would have to be liquidated at some time or other. She would probably take the same view as now and she would do without rather than continue increasing debt.

And another thing that is very important is that in those circumstances we would still be in trouble about our United States dollar requirements because the United Kingdom pool, the sterling area pool of dollars, would still not enable us to buy freely from the United States, and we come back to the first point: we would have to restrict our purchases, but in those circumstances we would have to join with the United Kingdom in deciding how far our action should go.

Mr. BLACKMORE: I would like to ask Mr. Gordon if he could give in a comprehensive way, without too much effort, just what are the limiting factors which determine how much we could afford to lend to Great Britain?

The WITNESS: I think that can be done simply. If I am not clear I may have to elaborate. The limiting factor is the over-all balance of payment surplus that we have with the world. In other words, we import a certain amount of goods from all the world, and when I say goods I include services, income items and so forth. We import so much; we sell so much; if we sell more than we buy we have a surplus, and with regard to that surplus we can decide to give it away or to lend, as the case may be.

If we have not got a surplus and we still give away our goods or lend them, as the case may be, then the only way we can handle that situation is to draw upon our own foreign exchange reserves; and that is exactly what took place. We did not have in 1947 the kind of a surplus that would have enabled us to lend as much as we did, and, therefore, over the years 1946 and 1947 our foreign exchange reserves were reduced by about one billion dollars by reason of the credits which we had extended.

Mr. BLACKMORE: You said we did not have the kind of a surplus; could you elaborate on that and give us an idea of what you mean by the word "kind"? You do not mean the size so much as the quality?

The WITNESS: Yes, the size of the surplus. If we export more than we import we have a surplus of goods. You can think of those goods in terms of United States dollar value or sterling value or any other value, but to the extent that we export more than we import then we can take that surplus and either give it away or set it up in the form of a loan; and the loans that we have made have usually been expressed in Canadian dollars so as not to raise questions in later years when the time comes for repayment, as to the rate of exchange.

Mr. BLACKMORE: One would be correct in saying that in the years 1946 and 1947 we did not sell on the whole more goods than we bought from the world as a whole?

The WITNESS: No, we did not sell to the world as a whole more goods than we bought plus what we gave away.

Mr. MACQUIS: It is because we have engaged large amounts of money in credits that our surplus was engaged in advance?

The WITNESS: That is right. We extended credits and from an economic point of view when we extended credits to the United Kingdom and other countries we really gave away those goods.

Mr. MARQUIS: We exported them?

The WITNESS: Yes; they were paid for out of these credits.

By Mr. Blackmore:

Q. We gave away more than our favourable trade balance?—A. That is right; and, of course, when we gave away more than our favourable balance there is only one way we could pay for our imports, and that was out of our accumulation of foreign exchange reserves, that is our holdings of gold and United States dollars.

Q. As a matter of fact we had to let the United States supply the goods we were not able to supply to meet our loans?—A. We paid for everything we got from the United States; everything we imported we paid for in cash.

Q. We had to depend on the United States to supply the goods to make up the difference between our favourable trade balance and what we loaned?—A. We had an unbalance with the United States. We bought from the United States nearly two billion dollars worth of goods in 1947; we sold to the United States nearly one billion dollars worth of goods; so we had a deficit with the United States which under normal multilateral trade conditions we would have made up by selling our goods to other countries and getting their currencies in exchange for them, and selling those currencies to the United States and getting United States dollars, and so we go on. That is really the essence of multilateral trading.

By Mr. Timmins:

Q. The Canadian Exporters Association sent a brief to the Department of Trade and Commerce for consideration. I presume that is probably the reason why they have not had a witness here; but in a nutshell their contention seems to be that all over the sterling area the barriers are going up against Canadian exports. Now, you have explained why. The Financial Post of last week says:

Clearly Britain, in her role of the sterling area banker, has been tightening the rein all along the line and attempting to enforce a measure of austerity throughout the sterling area more in line with her own position.

That quotation goes on with a paragraph:

Where might new dollars come from?

My question predicated on those few words is this: Geneva tariffs and the Geneva agreement—the charter that came out of Geneva is not going to solve the problem we have immediately in Canada, which is to get our Canadian exports into those various parts of the United Kingdom. How are we going to bring it about? Are we going to bring it about by means of an empire trade conference where some machinery can be set up so we can get our Canadian exports into those markets as we previously did in the British empire, or since everybody seems to agree that trade, no matter how it may develop, or from what cause it may develop, is all in the best interest of the world, are we going to have to go into the business of barter with the various members of the British empire, the same as Germany did prior to the last war with Brazil and Argentina? Germany did not have currency at that time that could be used in the markets of the world and so she set up a tremendous barter system with several countries and it worked. Now, I am asking whether or not you can foresee that either one of those suggestions I make might bring about the continuation of those Canadian goods getting into those United Kingdom markets with the sterling area members?—A. The first question is where the

dollars are going to come from. Basically there is only one long-term correction in regard to the currency unbalance that exists throughout the world today, and that is that various war-ravaged countries will increase their productivity, restore and expand their productivity in such a way that they will earn enough exchange, particularly dollar exchange, to pay for their imports. Now, Geneva, as I understand it, is designed in general to lessen the influence of currency groupings and to maximize the possibilities for multilateral trade; and with that in mind it certainly would tend to reduce our difficulties in selling in the sterling area or in other currency areas.

Q. I agree with you; but unfortunately there does not seem to be any machinery in Geneva to assist us to get over that.—A. I do not think at Geneva it was intended or designed to cure the currency problems of the world which we find in existence today. First, we must cure the currency difficulties, and having cured those, Geneva will have a chance.

Q. I feel that is right; I am wondering what we do in the meantime, because we are at an impasse.—A. What has been done in the meantime—what is being done in the meantime is that this country and the United States have embarked on a tremendous scale of loans and gifts in order to give those countries a chance to restore their productivity. We have put in enormous amounts of goods as a country, and the European recovery program has started off with \$5,300,000,000. With that in mind for the first year, and the thought that for three years there will be a continuing program, the hope is that that program of assistance from Canada and the United States will be sufficiently large to enable those countries to get back on their feet and function as fully productive units. Whether or not we will achieve that hope only time will tell; whether the program is sufficiently comprehensive and big to deal with the tremendous problems that still exist, only time will tell. If it does not work, achieve its objective, then we may be driven into the horrible headaches of bilateral deals, such as you mentioned, but the whole idea of Geneva, and of the establishment of the various international organizations—the whole idea has been to avoid the development of the very things you fear.

Mr. BLACKMORE: Mr. Chairman, it is now 12.30, and I would like to express to Mr. Gordon our great pleasure in having him with us today. I have enjoyed this session. I think we should hear from him further. I am wondering if we should not close now and ask Mr. Gordon to come back again?

The VICE-CHAIRMAN: If there is any chance of closing by 1 o'clock I am sure it would suit Mr. Gordon's time better.

Mr. BLACKMORE: I think the questions I have to ask Mr. Gordon would take longer than that.

The WITNESS: I am at the disposal of the committee. I do not like to haggle about my time. There are a number of important things coming on and also I have to leave town on Thursday and I have a lot of work to prepare before then.

Mr. BLACKMORE: I do not wish to hold Mr. Gordon up, but I know these other gentlemen have a lot of questions to ask. This is the kind of question I would like to ask Mr. Gordon: has the time ever been since World War I when the world was able to get enough United States dollars? If the time has been, let us know when that time was; and if it has never been then what justification have we in hoping that we shall be able to obtain within the next twenty years a state of production in foreign countries in respect of the United States which has not been obtained in the past twenty years? It is quite clear that the probe into that general problem will take time. The importance of the question is quite apparent from what Mr. Gordon has said. The whole success of the Geneva trade agreement is based upon this possibility that we shall be able to get the production in the foreign countries up to the point at which they will be able to offer enough goods to the United States which the United States will accept to enable them to obtain enough American dollars to pay their expenses.

Now, in a general sort of way I say that is not even a possibility worth considering in the light of what has happened in the last twenty years, and fundamentally I question the value of the whole trade agreement. Mr. Gordon has made a pronouncement of that kind today; Mr. Deutsch, the last time he was here, expressed the same pious hope that we would reach production sufficient to clear away all our difficulties; quite obviously we have got to the point that calls for most careful explanation of all these matters.

The WITNESS: May I break the rules of the committee and ask the questioner a question? I would like to ask Mr. Blackmore this question: If you take that attitude; if you reach the conclusion that the world will never get into the condition you have suggested is necessary, then what is the alternative?

Mr. BLACKMORE: Mr. Chairman, I would be happy to answer that question in more detail; I shall be happy also to give the evidence upon which my gloomy conclusions are based, going back over the last twenty years. I have in my hands a document which will be of extreme value to the members of this committee and which I think has a very important bearing on the subject before us, more so than any other document. It is called "The United States in the World Economy." It was published in the United States in 1943 and is the result of a finding of a committee of the best experts available.

Now, the information in that booklet is not very bright in its implications in respect of the success of the Geneva trade agreement, bearing in mind that this success must be predicated upon the hope that Mr. Gordon and Mr. Deutsch expressed. Now, the alternative is given here also in this document, and in my judgment it is fundamental to our whole study.

The WITNESS: All I can do in the committee is try within my limited ability to explain those certain things which are being done; I do not think I am capable of engaging in a debate with Mr. Blackmore.

Mr. BLACKMORE: I would not debate.

The WITNESS: I mean that seriously. I do not think I am capable of doing it; and moreover I am not sure of the propriety of my attempting it. My position here must be to try to explain the reason for the establishment of those organizations as best I can, and then the committee has to form its own judgment as to whether the policies back of them are something they wish to support. I do not want to be put in the position of defending the policies. I am here to explain how the mechanisms work and how to make them work.

Mr. BLACKMORE: I believe Mr. Gordon really deserved a more positive answer.

The WITNESS: I will withdraw the question. I was out of order.

Mr. BLACKMORE: No, I think the question was in order, and I say that as far as I can judge, with my own limited intelligence, the only time during the twenty-five or thirty years during which the world has had enough American dollars was the time when the United States was using the lend-lease system and using the mutual aid system. During that time the world had United States dollars. Now, the alternative would have to be to arrive at a state of international organization such as we can have, a resumption of the lend-lease arrangement. I am inclined to recognize that as a committee we will find in this Geneva trade agreement no attempt at solving our real problem, and something which, unless we solve the fundamental problem, will be a disadvantage rather than an advantage.

Mr. HARRIS: It may not necessarily solve the problem, but it might help us.

Mr. BLACKMORE: I do not wish to say too much, but I must say frankly and honestly, and I say I can produce evidence, that having become a member of this agreement we are in a worse position to solve our problem than we

would be if we did not have the agreement at all. We have the evidence Mr. Timmins has referred to. What has actually happened is conclusive evidence or strong evidence that the thing is not working. It is like the International Monetary Fund and the world bank for reconstruction; what good was the thing?

The VICE-CHAIRMAN: Mr. Blackmore, may I be permitted to say that at the moment you are making a declaration and not asking a question. If you wish to make a declaration you can do it when Mr. Gordon is not here. Have you any questions to ask Mr. Gordon with respect to the Geneva agreement? If there are no more questions to be asked of Mr. Gordon then I think we might thank him for attending our meeting.

Mr. HARRIS: There were one or two questions which were not answered. Mr. Gordon made observations with which we all agree, I think. I am not going to make a speech; I am going to ask a question. We are all anxious to have something that will work for the general benefit of us all and to put the world on its feet, and my question is based on this: we recognize that in Europe and in the United Kingdom they have the know-how which might be used to develop our natural resources. They have the technical knowledge—what we call the know-how. They have that in the United Kingdom. They are unable to come over here and use it for the simple reason that they cannot get Canadian dollars to develop the technique that they have in England and in Czechoslovakia. Now, my question is this: is there within your knowledge, sir—I am speaking to the witness through you, Mr. Chairman—is there within your knowledge a movement of Canadian dollars by the banks of Canada who in turn hold as their security the deposit of pounds sterling—is there a development going on in Canada, using the know-how of, we will say, the United Kingdom backed by the few dollars they are able to raise from the banks? Is there a bank appropriation being provided to our United Kingdom friends at the present time from deposits of pounds sterling in the United Kingdom for the use of their know-how to develop industry in Canada so that Canada in turn might be in a position to increase her trade and exports? In other words, do you know about it?

The WITNESS: I do not recognize that kind of transaction that you describe now.

By Mr. Harris:

Q. This can be recognized.—A. When I say I do not recognize it, I mean I do not identify the kind of transaction you gave, namely, pounds sterling against Canadian dollars. There have, of course, been cases where the United Kingdom control have authorized the use of Canadian dollars for British capital expansion in Canada. That has been going on to a very limited extent.

Q. What is the ratio of dollars to pounds in that case?—A. I say I do not identify the kind of transaction that you have in mind. I take it what you have in mind is that there are transactions where the pound sterling is being used as collateral security against loans?

Q. Yes.—A. I do not know of specific transactions of that kind.

Q. They are not recognized by Canada?—A. Let us understand the word "recognize"; it can be used in two senses. There is nothing in Canadian regulations prohibiting that kind of transaction.

Q. There is nothing in Canadian regulations prohibiting that kind of transaction?—A. No. If the United Kingdom government chose to authorize people to borrow money in Canada our own regulations would permit it.

Q. Against the deposit of pounds sterling?—A. That would be an additional part of the transaction that might occur, but does not necessarily affect the transaction.

Q. You have no knowledge of the ratio?—A. As against collateral security?

Q. Say, 100,000 pounds sterling—would that rate as \$100,000?—A. I question very much whether there have been transactions of that kind; I do not know of them.

Q. There are, you know.—A. There could be, but I do not know about them.

Q. What would be your view with regard to that? Do you not think that that would work out to the general advantage of Canada, inasmuch as in the United Kingdom there are piles and piles of British pounds having great difficulty to find investment?—A. It would work out to the advantage of Canada if the United Kingdom permitted capital investments in Canada for capital expansion purposes.

Q. Mr. Chairman, the United Kingdom may not have the say-so or the permission; it is for our Canadian banking system.—A. No, a United Kingdom resident could not borrow from a Canadian bank in Canadian dollars without the permission of the United Kingdom foreign exchange control.

Q. Have you any idea of the ratio that that would be—would it be a pound for a dollar?—A. No. I have never seen transactions of the kind you have mentioned.

Q. Mr. Chairman, in order to develop Canada's trade and get into Canada the know-how of our friends in Europe and the United Kingdom I ask this question of the witness. Is there not some method by which we can import into Canada the know-how of many hundreds of years in Europe and the United Kingdom, and at the same time let them have Canadian dollars to develop their know-how on our natural resources so that in turn we might be able to increase our world trade in Canada? Is there not a method within the banking regulations of this country by which this pound sterling accumulation which is of great magnitude in the United Kingdom could be used here in Canada to develop their know-how on our natural resources, to help our trade, or is it the alternative that we are going to drive these pounds sterling to South Africa, to India? They are going to India right today while we are here, to India, Australia and New Zealand. Is there no method by which Canada could not participate?—A. The pound sterling accumulation in the United Kingdom has nothing to do in any way, shape or form with the possibility of United Kingdom developments in Canada. The question really is how many Canadian dollars can the United Kingdom provide for that purpose. You ask me if there is any way whereby the United Kingdom can do so, and my answer is yes, if Canada felt herself able to extend more credit.

Q. There is no way of developing a ratio? Surely, Mr. Chairman—I am asking the witness a question—surely the English pound must be worth something in terms of Canadian dollars.—A. If we were buying pounds at any rate—just forget the rate—if we were buying pounds which we could not in turn use the effect would simply be that Canada was extending more dollar credits to the United Kingdom.

Q. Of course, the witness says "we" but he means the government of Canada.—A. I mean Canada.

Q. When I say "we" I have in mind all these private enterprise individuals who are anxious to import into Canada United Kingdom know-how.—A. There is nothing to prevent a Canadian resident, nothing to prevent Mr. Harris himself, if he wishes to lend his money to a Britisher to develop in Canada.

Q. Perhaps some of us have already done that to the tune of a hundred thousand pounds, and the pounds are lying over in England. That means we have to go to the United Kingdom to live the rest of our natural lives in order to import their know-how.—A. You are asking me if there is a way of doing it. I am simply replying; I am not advocating it.

Q. What I am trying to get from the witness is the way of doing it. Is it honourable and within the confines of the general administration of the witness' department?

The VICE-CHAIRMAN: Are we not going a little far from the Geneva Agreement?

Mr. HARRIS: Not at all. If you are going to take that attitude we will go right to the mat on this matter. I say to you within the last few months a million dollars worth of trade came out of the United Kingdom, came out of Australia and New Zealand into this country, imports which certain elements like to see coming in, and exports are loaded in Montreal this very day to pay for those imports. That is trade in Canada.

What I am trying to get at, and I will go right to the mat on it if it is necessary—

The VICE-CHAIRMAN: Excuse me; is this a declaration you want to make or a question you want to ask?

Mr. HARRIS: It is a question I am asking the witness.

The VICE-CHAIRMAN: Then ask the question.

By Mr. Harris:

Q. Is there not some means by which we can import into Canada the know-how of our friends overseas in order that we might utilize our natural resources, which today are being loaded on steamships in Montreal in raw material form at a price of less than a cent a pound, and are coming back today into the harbour of Vancouver, 20 per cent of that product, at \$1 per pound? Is there no way in which the general interests and the general advantage of Canada can be helped so that we can import into this country their know-how, their industries, which are far beyond the requirements for their own natural consumption in some cases? Can we not have them here, and the thousands and thousands of pounds which are idle? Is there no mechanical means by which the Department of Finance or our witness can tell us how we can get those British pounds sterling into Canadian dollars which might be used for capital investment in this country and develop products within the confines of this country? I am looking at my honourable friend from Lethbridge and my western friends who know that thousands of tons of raw material are lying idle in the western provinces, which if we only had the British know-how could be moved up in value from 2 cents a pound, 20 per cent of the product, to \$1 a pound to supply the very same articles which are being imported into Vancouver today? What I want to get from you, witness, is this. Is there not some method of getting those British pounds sterling into Canadian dollars so that industry might be developed here to expand the trade of Canada? It is being done now; it was being done during the last 24 months. I have been twice to England on the job myself. It has been done to the extent of a quarter of a million dollars already.

Mr. BLACKMORE: What is being done?

Mr. HARRIS: What is being done? British pounds sterling deposited with one of our Canadian banks in London, England, by the know-how of the people I am referring to in order that they in turn might develop different factories here in Canada by the use of bank overdrafts provided by the same banks which accept in turn the deposit of the pounds sterling in London. There is an opportunity for the expansion of trade in Canada. I am trying to extract from this committee, by way of your witness, if that is a grey market procedure? If it is I want nothing to do with it. I do not think it is a black market procedure because it has the approval of the Treasury Board of the government of the United Kingdom, but surely our Department of Finance must know

something about it. If it is wrong and immoral no member of the committee wants to have anything to do with it, but if it is right and it is going to extend the trade of Canada let us have it. Our resources are being wasted at the present time. Let us have it. I am trying to get from the witness if his department knows anything whatsoever about a movement of that kind of Canadian dollars into capital expenditure in Canada under and controlled by the deposit of a number of pounds sterling in London, England, by our Canadian banks which are in Canada. Is it good business? Is it for the general advantage of Canada, and if it is immoral, none of us want to have anything to do with it. I think it is moral and necessary, but I should like to get a declaration from the Department of Finance as to whether they know anything about it. If they do not know anything about it then why do they not know something about it?

The WITNESS: Mr. Harris, you are describing and repeating a particular kind of transaction. My reply to you is that there is nothing to prevent a Canadian bank, a Canadian citizen or the Canadian government from making loans to a Britisher for the purpose of engaging in capital expansion in Canada.

By Mr. Harris:

Q. Loans in Canadian dollars?—A. He can make loans in Canadian dollars. The government, a bank or an individual, if they so choose and feel it is good business, can make advances on loans to Britishers for any purpose they wish. Now, if in addition—if in a particular transaction the individual or the bank or the government, for that matter, chose to take pounds sterling as collateral security on any basis they wish, there is also nothing to prevent that; but if any person wants to advance capital investment funds, whether by way of loan or by the sale of securities or any other form of financing in this market, they may do so, and the additional factor of taking pounds sterling as collateral security is one new factor that I, personally, had not heard about. Others may know about it; I had not heard of that kind of transaction. There is nothing wrong or immoral about it; it is all to the good if it develops Canadian resources.

By Mr. Timmins:

Q. That emanates, I suppose, from the other side of the water?—A. It could be both ways. It may be Canadian interests approaching British interests and making suggestions as to types of capital development; it may be that British interests surveying the Canadian market in connection with existing interests they may have in Canada for future plans would make all sorts of propositions. That is going on all the time, not only in connection with British interests but United States interests—very large sums are always in the air and are being discussed. They are made under all sorts of conditions and deals.

Q. The question I wanted to ask was this: quite apart from the Geneva agreement, I take it, Mr. Gordon's evidence was to the effect that world trade recovery was pretty much predicated on, first, greater productivity in the countries themselves and, secondly, help, assistance and influence—the E.R.P.—and particularly credits which Canada and other countries would give to the other trading nations of the world?—A. Yes, I referred to credits; the E.R.P. is the same kind of thing.

Q. When you were giving your talk at the round table in the University of Chicago a few months ago you said at one place "Our real trouble is not that we have insufficient exports, for example, but where our customers have been unable to pay cash for all of them. For example, in 1946 we sold a total of \$860,000,000 worth of exports on credit or gift, and in 1947 we provided a further \$400,000,000 on the same basis."

Now, is it the policy of the government to continue those credits in 1948 and in years to come possibly in addition to what might come out of E.R.P.?—

A. Of course, that is a question of government policy. All I can touch on is the fact that they were credits authorized by parliament to the tune of, I think, \$1,800,000,000, which included \$1,250,000,000 to the United Kingdom itself. The United Kingdom has used up a very large proportion of that credit.

Q. That is from Canada?—A. That is from Canada. The United Kingdom has used up a very large proportion of that credit, but the government recently announced that there would be no further drawings for the moment. The United Kingdom is paying us cash for exports at the present time. Now, when the government will feel it possible to permit the United Kingdom to draw on the balance of that credit has not yet been announced, and I am not in a position to state...

Mr. BLACKMORE: By cash in United States dollars?

The WITNESS: What did I say?

Mr. BLACKMORE: You said they were paying in cash.

The WITNESS: It means United States dollars.

Mr. BLACKMORE: Or exports we would accept?

The WITNESS: Or their goods, yes. The cash the United Kingdom pays us is really in settlement of the deficit between the exports and the imports, so far as the sterling area is concerned.

By Mr. Timmins:

Q. I take it these three things, greater productivity among the nations themselves, E.R.P., and the credits which we have been giving or may continue to give or that other nations may give, are the three factors which in your opinion are likely to produce world trade recovery?—A. They are intended as correctives in that respect.

Q. Is there anything over and above that that you would suggest as a factor?—A. No; I would not like to be in the position of saying those three things you mention will correct the situation. I do not know. It depends on what progress the countries concerned will make with that degree of assistance. All I am saying is the objective is that through E.R.P. and other credits these countries will get re-established and will be able to get along on their own resources.

By Mr. Blackmore:

Q. After that is achieved the all-important factor after that is whether or not the United States will accept their goods in return for dollars, is it not?—

A. Not only the United States; you really get into the whole question of how multilateral trade works.

Q. After all our problem is one of United States dollars, is it not?—A. It is at the present time.

Q. And unless the United States will accept goods which these people produce and are able to sell then even their production will not solve the problem?—A. That is very true. It is also true of other countries, that every country in the world has to be in the position to be ready to trade, both receiving goods and selling them.

Q. At the present time we have worked into such an interdependence on the United States; she has bulked so large in the world's economy?—A. Yes.

Q. That unless she is ready to take goods or services in return for her dollars it does not matter how many goods or services we have to offer we cannot solve our problems unless we develop an area like the sterling area ourselves?—A. You must also remember one of the reasons we are in that position has been the horrible devastation of the war.

Q. There are other reasons because the difficulty began to be noticeable in the 20's, and a high degree of difficulty developed in 1926.

Mr. PROBE: It is adjournment time. In view of the fact there are a number of gentlemen here who are waiting on the outcome of the action of the committee on bill 220 would you consider concluding this portion of the discussion now, and spending a minute or two on the amendments that were proposed some time ago by Mr. Jaenicke? I think a minute or two would conclude it. What is your pleasure there?

Mr. TIMMINS: I have some other questions. I am certainly not going to be long. I do not like to hold Mr. Gordon here.

The VICE CHAIRMAN: How long will you be?

Mr. TIMMINS: We have another meeting today, have we not?

The VICE CHAIRMAN: Yes, we have at 4 o'clock.

Mr. BLACKMORE: I think we had better have Mr. Gordon back at 4 o'clock. We like his company.

Mr. PROBE: We will not finish with Mr. Gordon now. We might finish with the other business now.

The VICE CHAIRMAN: We will adjourn Mr. Gordon's evidence until 4 o'clock this afternoon. There is the other matter of bill 220, gentlemen, which was brought up at the last meeting of our committee. At that time there was an amendment allowed to stand between clauses 8 and 9, and another one between clauses 9 and 10. I understand now those two amendments have been dropped, and there is a new amendment to be introduced which will be at the beginning of section 5. Is that correct?

Mr. PROBE: That is correct, yes. I had hoped Mr. Warwick would make an explanation with respect to the legal position for withholding an amendment from this committee in connection with clause No. 9 while on the other hand there is no reason for not considering an amendment to clause 5.

The VICE-CHAIRMAN: I understand the amendment has the approval of Department of Justice, the Department of Insurance, and is agreeable to the loan companies.

Mr. PROBE: That is the exact position.

The VICE-CHAIRMAN: I will read the amendment.

That clause 5 of the bill be amended by deleting the introductory paragraph thereof and substituting the following therefor:

5. (1) Paragraphs (c) and (d) of subsection (1) of section 15 of the said Act are repealed and the following substituted therefor:

(c) The requirements as to proxies, the record to be kept of them and the time, not exceeding ten days, within which proxies must be produced and recorded prior to a meeting in order to entitle the holder to vote thereon; provided that an instrument of proxy shall not be valid unless executed within one year of the date of the meeting at which it is to be used.

Shall the amendment carry?

Carried:

Shall section 5 as amended carry?

Carried.

Shall the preamble carry?

Mr. HAZEN: Why were the other proposed amendments dropped? I thought there was a good deal of merit in one of them. Can you give us any explanation?

Mr. PROBE: It is for that reason I would like to have Mr. Warwick explain this because I am just acting for Mr. Jaenicke. It has to do with the fact that

apparently it could be more appropriately considered in the Winding Up Act. It is a legal matter and I am not competent to discuss it.

The VICE-CHAIRMAN: Shall the preamble carry?
Carried.

Shall I report the bill as amended?

Mr. PROBE: You do not want Mr. Warwick's evidence? I would like to have had his position with respect to it.

The VICE-CHAIRMAN: If the two other amendments are withdrawn I do not see that it is necessary. Shall I report the bill?

Carried.

Mr. HARRIS: As a courtesy to a witness who has come here from Stratford, Ontario, could we hear him at 4 o'clock?

The VICE-CHAIRMAN: I was hoping we would conclude with Mr. Gordon and then proceed with Mr. Jones.

The committee adjourned to resume at 4 o'clock p.m.

AFTERNOON SESSION

The committee resumed at 4 p.m.

The VICE-CHAIRMAN: When we adjourned, Mr. Timmins, you said you had one or two more questions you wanted to ask Mr. Gordon.

Donald Gordon, Deputy Governor, Bank of Canada, recalled.

By Mr. Timmins:

Q. We were dealing with E.R.P. and I wonder if Mr. Gordon could tell us in his opinion what potential hope of help Canada expects to get under E.R.P., having regard to the dollar situation?—A. Well, it should be kept in mind in the first place that E.R.P. as it affects Canada does so indirectly. It helps Canada by reason of the fact it helps Canada's customers to continue buying things from Canada. In other words, if E.R.P. had not happened the United Kingdom, France and other recipients of E.R.P. help were rapidly getting into the position where they did not have the dollars to buy goods from the United States or Canada, and if E.R.P. had not come through to provide dollars to those countries to enable them to continue buying from Canada then we might have been in a very serious situation because we would have had to find other markets.

Q. Is it envisaged that the United States would under E.R.P. help Great Britain with a certain amount of money which would be earmarked to buy Canadian timber or to buy Canadian base metals?—A. That is right. The United Kingdom or any other recipient of E.R.P. aid produce a program of their contemplated purchases from various countries, and that program is approved by the E.R.P. administration after discussion, and if it is approved by the E.R.P. administration then that country obtains United States dollars which she can use to buy a number of goods from the supplying country.

Q. Will we have any say in what goods the money might be allocated for? For instance, I can conceive there might be some goods we would want to keep right in Canada, but those might be the very goods designated as goods which Great Britain should purchase with money allocated from E.R.P.—A. That is

right. Canada is not compelled to sell any goods that she does not want to sell. The situation simply is that our overseas customers will, through E.R.P., be in funds which they may use to come to Canada and bid for our products, for the products they want to buy.

Q. I have in mind the point of the United States being able to say to some country being helped by E.R.P. that they should buy specific goods from us. For instance, we will say things that are in the raw state like timber or base metals that have not been manufactured. Perhaps we do not want to sell them in that way, but nevertheless in order to help the spirit of E.R.P. we might be compelled to sell?—A. There is, in fact, no compulsion on Canada through the operation of E.R.P. to sell any goods. We are masters in our own house in that respect. We have, of course, a series of government contracts which have been entered into with the various countries who are recipients of E.R.P., and what E.R.P. does, as I said before, is provide those countries with the cash to buy those goods, but in respect of any goods which are not under contract government to government our Canadian producers are free to sell those as they see fit. They are not compelled to sell them by any operation of E.R.P.

Q. I have here a number of letters from Canadian manufacturers in my own district, and one of them states:

We are in turn suffering by the refusal of Great Britain to exchange sterling for Canadian dollars in countries like Australia, New Zealand and Hong Kong. Surely we can extend further credit to Great Britain and stimulate the exchange of goods in the British commonwealth of nations. Even though this may mean long term loans to Great Britain our country will prosper in the long run by closer co-operation with England,

and so on. There is a company that has been able to do business previously in Great Britain, Australia and New Zealand, and which is now in a sense stifled in getting her products into those countries by reason of the fact she has to sell in the sterling area, and it just cannot be done. Then there is another example I have which is in a brief of the export association. One manufacturer points out that in respect of lamps, stoves and heaters which he had previously been selling there has been a falling off of business to New Zealand of 95 per cent; Australia, 95 per cent; Trinidad, 90 per cent; Jamaica, 100 per cent; Southern Rhodesia, 100 per cent; East Africa, 95 per cent; India, Burma and Ceylon, 100 per cent; Federated Malay States, 50 per cent. How is E.R.P. going to help that situation?—A. Those countries which are in receipt of E.R.P. assistance may decide to use the dollars they get from that program in buying Canadian goods if they wish, and having outlined their program and if the E.R.P. administration agrees that that is a proper use of the funds, then those countries you refer to will now have the dollars to buy Canadian goods. It has been previously mentioned that surely Canada can extend more credit. That, of course is a matter of government policy. This country has already extended very large credits to the United Kingdom in particular and other countries, and the situation that we have got ourselves into as a country is that we have over-strained ourselves in that respect. We have extended credits to such an extent that our own foreign exchange resources have been severely strained and run down.

Q. That was the point I was trying to make, and I did not make it very well. I was trying to say that our manufacturers and industries were in a sense saying to me that we ought to circumvent Geneva and we ought to get at this from another angle.—A. But Geneva has no possible bearing on the fact these countries are cutting down their imports from us. It has no possible bearing whatever. If Geneva works then Geneva is the kind of thing that will help us to sell our goods in these countries.

By Mr. Blackmore:

Q. How would it do that?—A. Because Geneva is based on the general principle of maximizing multilateral trade throughout the world. The aims and the objective of Geneva are to establish rules of such a character that world trade will be increased rather than diminished. These matters that you have been referring to arise because of the fact that these countries are short of dollars and they have been obliged to restrict their trade from Canada, but it is important to remember that even with those restrictions that Canada as a country, and the United States too, but I am dealing with Canada now, is still selling enormous quantities of goods to these various areas you have mentioned. I have before me figures of other exports to the United Kingdom. For example, for the year 1947 they were of the order of \$386,000,000.

By Mr. Timmins:

Q. What year was that?—A. 1937; in the calendar year 1937 our total exports to the United Kingdom were valued at \$386,000,000. During the first three months of this year we have already exported \$195,000,000 worth of goods to the United Kingdom, so that indicates our rate of exports to the United Kingdom is very substantially above any pre-war figure given in spite of restrictions.

By Mr. Hazen:

Q. Of course, values of the goods have changed?—A. In part prices have gone up, but even so there is roughly \$200,000,000 worth in the first three months; that is running at the rate of \$800,000,000 a year as compared with \$386,000,000 in 1937. That states the problem with which we are confronted here, because the needs of those countries that we are discussing have increased so enormously because of war damage and one thing or another since the war that they are looking to the North American continent for goods in a volume never before known in history. In due course that demand is bound to be reduced as these needs are satisfied. Then we will get on with the job of getting back into a more balanced situation.

Q. Of that \$195,000,000 that we have sent over do you know how much of that has been paid for?—A. A certain amount of it is drawn on the credits we have already mentioned, and the rest of it has been paid in cash.

Q. Would it be 50 per cent in credit?—A. We were running on a basis of 50 per cent last year, during part of the year 1947. I have not in mind the exact ratio during 1948, but since the first week of April—and I am speaking from memory, but it is pretty close to that—since the first week of April this year we have been paid 100 per cent in cash. In other words, the United Kingdom has not been drawing any credit at all since the first week of April.

By Mr. Michaud:

Q. Under the food agreement was not the limit of credit set at \$15,000,000 per month for the months of January, February and March?—A. There was an understanding that the drawings on the credit of the United Kingdom would be at the rate of \$15,000,000 a month for the first three months of this year.

Q. Following up the question which was raised as to the amount of credit extended by Canada to the United Kingdom, are you in a position to tell us whether any of the commonwealth countries have extended similar credits, and to what extent?—A. I cannot answer that question fully except that I do know Canadian assistance to the United Kingdom has been very much larger than anything which any other part of the commonwealth has done. I cannot give you specifically the amounts of any credits that were given, but certainly they are not even to be compared with the Canadian program.

By Mr. Timmins:

Q. Will we have any part in Canada in setting up the plan under which E.R.P. will work? Will our experts be called into consultation about it in Washington?—A. Remember that under E.R.P. after all the money is being advanced by the United States, and they have the say-so as to the rules under which they will advance that money, but in the interests of the whole objective and the spirit of the operation there will be and is, in my understanding, a very close liaison and discussion with Canadian officials in respect to the kind of things which Canada can best produce and provide.

Q. As a matter of fact I have learned in my own district that officials of the Department of Trade and Commerce have called on some of the firms and they have asked them what they can produce and in what quantity?—A. That is right. It is called Canadian availability. What have we available for sale? The E.R.P. administration is, of course, very much interested to know what we would have available for sale and indeed any countries that are recipients of aid are similarly interested in knowing what they can get from Canada and at what price.

By Mr. Hazen:

Q. I understand that fertilizers and farm machinery will have preference over all foods except wheat under E.R.P.?—A. Well, we are getting into details—

Q. Is that a decision of the United States?—A. It would be a decision of the United States administration, the E.R.P. administration, but we are getting into details, which I would not like to confirm. I think generally speaking you are right, but it is a United States matter and I would not—

Q. In other words, the United States tells the countries of Europe how the money is to be spent.—A. The way it works is roughly this. The various countries which receive aid under E.R.P. make up a program of the things they think are most essential for the rehabilitation and reconstruction of the country, and they submit that program to the E.R.P. administration. Then the matter is discussed, and in due course various things are suggested and they reach an agreed program.

By Mr. Gour:

Q. The understanding is that each of these countries would indicate what they wished to buy?—A. That is right.

Q. After all we have to understand that they have to take what they believe is best for their own countries?—A. That is right.

Q. And if they do not want electric stoves or lamps and they prefer something else for the good of their country it is up to them to decide what is the best for them?—A. That is right. They decide in the first instance, that is, they ask in the first instance, but in addition to that the United States administration also looks over the program to see if they agree with it.

Q. They want to be sure the money will be spent in the best interests of those countries for quick rehabilitation of those countries?—A. That is right.

By Mr. Probe:

Q. May I ask this question? Does E.R.P. administration put any checks on unit costs of things which they may be entitled to buy, or alternatively in the negotiations that our Department of Trade and Commerce have had with manufacturers or producers, are they advising them with respect to unit price levels; because I imagine the shopping-around factor is also an important thing to the countries concerned, because if they have, say, \$100,000,000 to spend on a certain commodity naturally they will want to get the most possible for their

money. Now, are we as a Canadian government or the Department of Trade of Commerce advising our manufacturers to do a little better with the price line?—A. I could not answer that in point of detail, I do not know; but, generally speaking, the administration of E.R.P. funds would be on the basis that they will buy in the best market at the best price.

Q. E.R.P. itself makes no recommendations with respect to unit costs, as far as you know?—A. I could not specifically answer that.

Mr. MARQUIS: Do you not put any ceiling on manufactured goods?

The WITNESS: In terms of this program?

Mr. MARQUIS: Yes.

The WITNESS: No.

The VICE-CHAIRMAN: Might I remind the members of this committee that we are now discussing E.R.P. and not the Geneva agreements. I have no objection to discussing E.R.P. in its relationship to the Geneva agreement, but I think we should stick to the Geneva agreement.

Mr. TIMMINS: We may be out of order by discussing the details, but these things are tied up so closely together that we are not too far afield.

The VICE-CHAIRMAN: I do not know where we will get if we go into details and I think we are.

Mr. TIMMINS: Yes, I think so, too.

Mr. BLACKMORE: It is almost impossible to get a comprehensive picture of these principles unless we have some illustrations to get one's teeth into.

By Mr. Timmins:

Q. Mr. Gordon, would you care to help the committee in respect to what the impact of the Geneva agreement might be with Russia not a signatory to the agreement?—A. With what?

Q. With Russia not being a signatory to the agreement, but being in control of a great amount of gold and United States dollars? For instance, we found out in respect of canned salmon that although the United States might drop her tariff to assist Canada to some extent, yet, if she dropped her tariff to assist us to sell canned salmon to the United States the same privilege would have to be extended to Russia, and therefore the countries would probably be flooded with United States salmon and no benefit would be derived by Canada, which puts Canada in the position, being a signatory to the Geneva agreement, of being sort of strait-jacketed, whereas if she were not a signatory to the Geneva agreement she would make her own bargain possibly with the United States. Now, that is one commodity. The same thing might happen with a good number of other commodities when the U.S.S.R. steps out into the market to sell goods and make purchases.—A. I am afraid that is getting out of my field. I could not undertake to discuss the details along the line you have mentioned. I do not know whether the effect of Russia not being in the agreement is as you suggest or not. I think one of the experts with regard to the agreement itself would have to answer that question.

Q. I was thinking of the impact of the weight of her wealth.—A. Do you mean that she would be in a position to offer her goods in a competitive way against the goods of the countries who are in the agreement in such a way as to cause difficulties?

Q. Yes.—A. Well, conceivably that could develop, but I think this club, as represented by the agreement, would be sufficiently powerful to deal with the situation. But really to discuss that question is to get into pretty definite detail of the agreement, and beyond that, so that I would not care to express judgment on it without taking a specific case and analysing it carefully. As you have expressed it, I do not think you have the whole story. That is what I want to say.

Q. Take the other phase of world trade. Great Britain is making strenuous efforts to sell in the United States market, having regard to their lower tariffs under the Geneva agreement; Australia is doing the same thing—Australia under a hard bargain in respect of her wool in getting into Geneva; New Zealand has to do the same thing and Canada wants to do the same thing. They all want to sell in the United States market. Is not there a likelihood of there being a saturation point as to what the United States can take, and this matter of multilateral trade, particularly with the United States, may break down?—A. I would not think so. I think the first thing we have to consider is whether or not the world is functioning in such a way as to restore multilateral trade possibilities; if we can get through to that stage—and those restrictions we are discussing should not be there if Geneva is going to have a chance to work—if we can assume the restrictions are out of the way and we are in a multilateral trade system, then the heavy unbalances that exist with various countries with the United States and countries with Canada, and so forth, should not exist either to anything like the same extent. What has thrown a monkey-wrench in the works now has been the enormous need for North American goods to an extent never before known in the history of the world. That has been due to war destruction and lack of productivity in those other countries.

Q. You mean the United Kingdom and western Europe?—A. Yes, the United Kingdom and western Europe; those countries find themselves with an inflated demand for goods never before known in history, and the only place in the world where they have been able to get those goods has been the North American continent. Fortunately, we were not damaged in the war and we were able to produce in massive quantities beyond any previous experience. This meant that the goods have been flowing practically all one way and there has been a tremendous unbalance; but if you visualize the situation where the countries of the world are back on a much better balanced basis where they will be trading with each other, there will not be the tremendous export surplus that has been demonstrated on this continent alone. There will be a much more manageable situation in that respect. And only when we get the world in that condition will we really be able to see whether or not the rules of Geneva are going to work out as the authors of the charter intended them to.

Q. Do you suggest then that our natural market is in the United Kingdom and western Europe?—A. For a great number of things, yes; our traditional and natural market.

Q. If Geneva is going to function it is with the United Kingdom and western Europe?—A. We have a heavy interest in that market, certainly.

By Mr. Fulton:

Q. Do you not think we shall always have to keep our eye over our shoulder looking at our American dollar position?—A. Yes.

Q. And will not all countries be in much the same situation even when trade is flowing freely again?—A. It becomes a matter of degree. With the difficulties we are experiencing now, we are struggling with such a heavy unbalance, there is only one way to fix it and that is for the United States and ourselves to provide the goods without payment or in the form of loans or gifts for a temporary period.

Q. Yes, but what I was thinking was this: it seems to me that as long as we have fixed exchanges we are going to have to keep a close eye on the official exchange reserves in the case of every country, and the one we would be most concerned about would be the American dollar reserve. Therefore, it seems to me that with fixed exchanges controlled—fixed at certain rates—

it is going to be much harder to get Geneva working freely and to get world trade, and therefore to get this agreement to apply, than it would if exchanges were allowed to go to their natural level and then each of us would accept the other country's currency in payment of debts, and in turn we could use it in payment of our debts to the United States.—A. Of course, you are visualizing something that is theoretically possible. The only comment I care to make is that if we take that position while the world is in such a state of unbalance we will find very chaotic conditions in various countries, and the real question is whether it is worth while going through that agony, and whether there is a better way to obtain control for a period of time until we can get the world in a better state.

Q. My point would be that we could get world trade balances restored now by loosening exchanges. I agree that for some years we will have to go on extending credits to Europe—the United States and ourselves—there is such an unusual inflated demand, but when we have trade restored or get it back to normal, we are still going to have the position of a controlled exchange under the International Monetary Fund.—A. That does not follow. The International Monetary Fund does not necessarily mean a controlled exchange in the sense we are now talking about it as controlled exchange; it merely produces a forum whereby currency rates or changes in currency rates would be a matter for consultation between the members affected.

Q. No, but a change of 10 per cent at a time—A. Wait a minute, we discussed that this morning. The 10 per cent rule has been widely misunderstood. All that it means is that under the agreement, so far as it affects the members of the fund, the members of the fund may change their rates with a leeway of 10 per cent, and the fund has not the right to object to a change of that magnitude. It does not eliminate the agreement to consult; it merely means that if a country insists the fund has not got the right to object. The fund, however, after consultation could quite properly agree to a rate in excess of 10 per cent if the fund membership thought that appropriate in all circumstances; but when we talk about control of exchange rates through the International Monetary Fund, that is a different type of control altogether from the foreign exchange control we have been discussing. The foreign exchange control we have been discussing is individual control by the country concerned, having regard to its own foreign reserve position. The control exercised from the International Monetary Fund is agreement to consult and agree in respect of any depreciation or appreciation in an individual currency.

Q. To consult about an Act of our country to change its exchange rates; but will not the Monetary Fund control have the effect of preventing fluctuations in exchange that used to go on before in accordance with balance of payments and so on?—A. It would examine the validity of the change. Heretofore there has been no sort of court of appeal or any world organization at all that had any right to express views about the individual action of a country in respect to its exchange rate versus the rest of the world. The only thing that was done to other countries heretofore was that if one country changed its exchange rate another country could say, "We will see that we are not put at a disadvantage"; and they would tend to make a deflation or appreciation, and there would be competitive action in the field.

The International Monetary Fund recognized for the first time in history that the question of the exchange rate of any individual country is more than a matter for that individual country; it is a matter which affects the rest of the world in such a way that there should be international consultation on it.

Now, Geneva, is another part of the frame-work having to do with the rules of the game. There are provisions—I do not want to get drawn into detail,

because I am not competent to go into that—but there are provisions in the Geneva trade agreement in respect to instances in which the International Monetary Fund should be consulted in regard to currency action. Currency action by a country is recognized as something which does affect trade and there would be need for consultation.

Q. Do we not get around in a circle to the point I started with? I am not sufficient of an expert to present my own point clearly, but I have a feeling, and I was wondering if you would be kind enough to examine it, that so long as we have this form of control over exchanges it is going to be harder to get world trade going freely; and we will always be uneasy about our supply of American dollars. You are, as it were, treating American dollars like bank balance.—A. I think I see what you mean. You are back to the old problem; which came first, the chicken or the egg. Because if we were not worried about our American dollar balance we would not need to have foreign exchange control. The question there comes down to this, would we remove foreign exchange control—and I am talking now in general terms as to what the likely policy would be and I have no right to do that—but I am just speaking objectively. If our foreign exchange reserve situation were quite healthy and quite satisfactory and we had no worries about it there would not be at least the need for foreign exchange control anymore. That is a situation of a sort likely to come about under circumstances which mean that we have order restored in the world under a multilateral system of trade, and under those circumstances the Geneva Agreement would also be working.

Q. And Geneva would be less necessary because everybody would be in a position where they would not have to resort to control practices.—A. That is quite true, but the question is would they do that in any event. Geneva sets the rules, but even under the rules of the game you will never get a situation where every country had such a satisfactory condition that they would all consider the question of high morality in international trade to be of such importance that they would carry them out, because there are always unending differences of opinion in countries as to whether or not they have gained the advantage they would like to have in competitive markets as compared to what they have got.

By Mr. Harris:

Q. How is the present situation going to affect our capacity to lend, in view of the fact that you said this morning that we have already strained our lending facilities to the limit?—A. Whether or not we lend has nothing to do with Geneva. That is a matter of government decision as to whether we are able to lend.

Q. Would you care to enlarge on the point you made this morning that we have strained our lending facilities to the limit?—A. I think we have strained ourselves in regard to our lending program for the reason that we have over the last two years loaned more to other countries, more than we have developed as an export surplus; and the result of that has been that our foreign exchange reserves have fallen by nearly a billion dollars. Now, that is only one of the reasons why we strained ourselves—through this lending program. The second reason has been that we have been engaging in a very heavy capital expenditure program in our own country which called for the use of U.S. dollars.

Q. Are we not fast recovering our old position?—A. I would not care to express a view on that because I think the restriction program has not been going long enough yet to get a really balanced view of it. Now, as to the next point you raised, as to relieving the situation, and improving our ability to loan money or to loan goods or to give goods, whichever way you want to express it, that would depend entirely on the degree to which we have a favourable over-all balance of trade with the rest of the world, if we export or sell more than we import we will have something left over to give or to lend to other people.

Mr. HARRIS: Before you leave the chair, Mr. Chairman, I would like to have a word or two as to what you figure the changes made at Havana will do to the Geneva Agreement.

The VICE-CHAIRMAN: I think we have gone into that pretty fully in previous meetings of the committee with Mr. Deutsch.

Mr. HARRIS: That might be quite true.

By Mr. Harris:

Q. Would that affect the import position at all, or the conservation position?—A. Are you asking a question of me?

Q. Yes.—A. I am afraid that I cannot answer that in point of detail. I am not sufficiently familiar with the changes in the agreement which took place at Havana. That would be a matter for the experts.

Q. The changes made might affect our financial position.—A. No, as far as I know the financial situation did not have any bearing on the further changes that took place at Havana.

Mr. Chairman, might I just make one word of correction in regard to a point Mr. Harris raised this morning?

The VICE-CHAIRMAN: Certainly.

The WITNESS: I think in answering you this morning dealing with the question of Canadian loans to Britishers I should have included in my statement that a Canadian resident making a loan to a United Kingdom resident, any United Kingdom resident, requires permission of the Foreign Exchange Control Board of Canada. I think I indicated that could be done without let or hindrance. The only thing I should like to add to that is that a permit is required.

The VICE-CHAIRMAN: If there are no further questions for Mr. Gordon I will thank him for his observations and I will call the next witness who is Mr. Jones, of the Jones Manufacturing Company.

Paul Jones, Secretary-Treasurer, Jones Manufacturing Company, Stratford, Ontario, called:

The VICE-CHAIRMAN: Now, gentlemen, Mr. Paul Jones of the Jones Manufacturing Company of Stratford, Ontario, I understand has certain representations to make in connection with the Geneva Agreement. Would you care to present your views now, Mr. Jones?

The WITNESS: Perhaps my view is a little narrow and a little selfish. The principal complaint we have to make is the temporary acts that are made to implement the Geneva Agreement; for instance, with respect to the tariff. After the Geneva Agreement the tariff on our product coming in from England has been removed. At the same time the emergency conservation authority has done nothing to help the situation as a temporary measure and as a result the American tariff on imports into Canada is lower now to a point where we are put in a very unfavourable position in so far as the American and English markets are concerned.

By Mr. Timmins:

Q. What is your product?—A. At the present time we are making bicycle saddles.

Q. And you sell them where?—A. Well, the greater proportion of our production goes to the Canada Cycle and Motor Works.

Mr. BLACKMORE: And you are finding that the American and British saddles are coming in now by virtue of the lower tariff granted at Geneva? Are they actually underselling you?

The WITNESS: That is a point I do not know, but they are in a more favourable position now after the Geneva Agreement than before.

Mr. BLACKMORE: Could you give us details with respect to specific commodities you use so as to make that clear?

The WITNESS: For instance, we use a great deal of leather, rubber, steel and textiles; every bit of it made in Canada except sheet steel. I just learned this morning that Mr. Hunter has given us a great deal of assistance in securing a drawback on the steel going into the saddle which will make up to about probably two or three or four cents per saddle. I did not know this until this morning, however.

Mr. GOUR: A little louder, please.

The WITNESS: I did not know this until this morning.

Mr. GOUR: And you are now coming to this committee with regard to it, knowing what you know now about the drawbacks?

The WITNESS: I might go so far as to say that, as I have just said, gentlemen, our difficulty has been the effect of the Geneva Agreement I should say generally on manufacturing in Canada.

By Mr. Blackmore:

Q. You have not shown us yet by dollars and cents these facts so we can appreciate what you say.—A. I believe there is a percentage reduction in the tariff, but I believe before the war it was 22½ and I believe since the Geneva Agreement it is perhaps 15, or it may be 17. I am informed it is now 20 per cent.

Q. And you are speaking of?—A. The importation of English saddles into Canada.

Q. And your firm enjoyed protection before?—A. Yes.

Mr. FULTON: Do you think it will make any reduction in your production?

The WITNESS: Yes, we have been producing at a reduced rate since the first of the year

Mr. FULTON: How many men do you usually employ?

The WITNESS: We have employed as high as twenty-six. We are a small firm. At the present time I would say there are practically fourteen.

Mr. MARQUIS: What is the amount of money involved in your firm in relation to the Canadian market and the foreign market?

The WITNESS: If I understand your question correctly I might say that we provided half of the dollar value in saddles of Canada, the United Kingdom and the United States in the year 1946.

By Mr. Michaud:

Q. You mean that is your dollar production, that it was one-half of that sent in by these other countries?—A. That is right, the dollar value.

Q. Where do you sell your product?—A. Here in the dominion.

Q. You do not export any?—A. No.

Q. As a result of the lowering of the tariff from Great Britain, British goods are coming here and competing with yours?—A. That is right.

Q. What is your suggestion to remedy this situation; or, do you believe that it should be remedied?—A. Well, I thought perhaps the Emergency Conservation Act might give us a little help, but that has gone by and there has not been any relief for us.

Mr. FULTON: You would have bicycle saddles put on the prohibited or restricted list?

The WITNESS: That is right.

Mr. GOUR: But you have a 20 per cent protection over the British goods right now, have you not?

The WITNESS: That is right.

Mr. McKINNON: I wonder if it would be of help to the committee if I could read the section. Prior to January the reduction on bicycle saddles manufactured by Mr. Jones' firm were as follows: $17\frac{1}{2}$ cents British preferential rate—that was subject to a reduction of 10 per cent by reason of direct shipment—which I think if I am correct mathematically, would be $15\frac{3}{4}$ per cent.

Mr. GOUR: Now?

Mr. McKINNON: No, before Geneva. The m.f.n. rate was $22\frac{1}{2}$ per cent. As a consequence of Geneva—and perhaps I should blush to say it, the British preferential rate was reduced from $15\frac{3}{4}$ per cent to 15 per cent.

Mr. MARQUIS: Only three-quarters of one per cent?

Mr. McKINNON: Three-quarters of one per cent. The m.f.n. rate was reduced slightly more, from 22.5 per cent to 20 per cent; but the government recognizing Mr. Jones' plea that he was in some difficulties, in the budget reduced the rate on sheet steel which he spoke of and which is a major component in the construction of saddles, from 20 per cent ad valorem to free. Those are the relative reductions.

Mr. FULTON: On that point to which you referred, Mr. McKinnon; you said that the British preferential rate was 17 per cent and if shipped direct it was $15\frac{3}{4}$?

Mr. McKINNON: That is right.

Mr. FULTON: And now it is 15 per cent?

Mr. McKINNON: The direct shipment discount never did apply and it does not now apply if the rate is below 15 per cent.

Mr. FULTON: And there is a continuing rate of 15 per cent?

Mr. McKINNON: That is right.

Mr. FULTON: So it is possible there is a reduction on the British saddles from 17 per cent to 15 per cent if shipped direct?

Mr. McKINNON: Actually, supposing the British did ship direct and got the discount for shipping direct, that would mean a reduction—as a consequence of the reduction from $15\frac{3}{4}$ to 15 per cent that means they have reached the basic rate of 15 per cent on which discount is never allowed. As I said, the rate now is 15 per cent as against the rate before at $15\frac{3}{4}$ per cent.

Mr. MICHAUD: Are you in a position to tell us whether there are many firms manufacturing this product or is it just Mr. Jones and his firm?

Mr. McKINNON: As far as I know. I would say categorically he was the only manufacturer of these so-called saddles.

Mr. MICHAUD: I am not sure whether he mentioned whether it was his firm which was the Canadian manufacturer supplying 50 per cent of the saddles supplied the Canadian market in 1946. Are there other Canadian manufacturers of saddles similar to yours?

The WITNESS: No, that is our own record. We compared our own production figures with figures shown by the Dominion Bureau of Statistics for that particular year.

Mr. MICHAUD: And you supplied 50 per cent of the total saddles coming on to the market from the United States, Great Britain and Canadian sources?

The WITNESS: That is my memory of it.

Mr. GOUR: If I understand it correctly the reduction is three-quarters of one per cent from what it was before and if he applied that 10 per cent discount for direct shipment or down to $15\frac{1}{2}$ per cent, and that it is now 15 per cent, and that there was a $2\frac{1}{2}$ cent reduction in the other rate, and then the government gave Mr. Jones a chance to buy steel cheaper because of that. Do I understand it correctly?

The VICE-CHAIRMAN: It was not $2\frac{1}{2}$ cents, it was $2\frac{1}{2}$ per cent.

Mr. GOUR: But it was $22\frac{1}{2}$ per cent before and it is 20 per cent now. You employ 26 men and you have a right to sell all you can make in the Canadian market. You get your steel cheaper now—really, Mr. Chairman, I do not see why we should lose time over a little matter of this kind.

Mr. FULTON: He manufactures saddles.

Mr. GOUR: I know.

Mr. MICHAUD: If I might ask a further question; you mentioned competition from the United Kingdom. Since the Geneva Agreement came into operation are imports of this product from other countries coming in?

The WITNESS: Well, in answer to your question I would say no, with this qualification; that we are not so anxious to go further into the matter as when these temporary measures did not react favourably to us. Perhaps I should enlarge on that by saying that I do not want to put any more money into the saddle business if you are going to let saddles come in here from England and America and put me at a disadvantage. I would rather sell abroad. I have inquiries in that direction which I am considering pretty seriously, but that I think is a pretty big order.

Mr. PROBE: Apparently you have not been doing too badly. You told us that your firm made 50 per cent of the total value of saddles sold in the Canadian market.

Mr. HARRIS: I wonder if the witness could give us his figures as to the number of articles and the number of dollars, or as to his turnover for the year 1947.

The WITNESS: I haven't developed those as to total numbers, but I can tell you at the moment that we sold in Canada 28,820 saddles.

Mr. PROBE: In what year?

The WITNESS: 1947.

Mr. MICHAUD: Did you say 28,000?

The WITNESS: That is right.

Mr. FULTON: Have you got those by months so you could tell us how they compare with the same period for 1948 to date—I mean, as compared to 1947?

The WITNESS: Supposing I give you 1946 and 1947 figures starting in January.

Mr. FULTON: But the Geneva Agreement did not come into effect until this year.

The WITNESS: Then suppose I give you the 1947 January, February, March and April figures compared with those of the last year for the same period: In January, 1947—these are divided into models—men's model, 1,504, January, 1948, 1,008; February of 1947, 2,267; 1948, 608; March of 1947, 3,040; 1948, 2,352; April of 1947, 1,952; 1948, 800.

By Mr. Blackmore:

Q. What if anything have you to show that it was British saddles which were throwing your market out?—A. Well, a letter from the Bureau of Statistics on April 15, puts the dollar value of the United Kingdom saddle shipped in at

\$18,000, and the United States at \$33,000, and we put in about roughly \$60,000. That is the figures by which we show that we made one-half of all the saddles that were sold in Canada.

Q. And in the previous year were there any British saddles brought in?—

A. 1945 was the year we entered into the business.

Q. In the year 1947, were there any from Britain?—A. Yes, in 1947, the United Kingdom shipped in 20,078, the Netherlands shipped in 1,350 and the United States shipped in 5,350; and in that same period we supplied 28,820. The reason I referred to 1946, was because that was the year in which we had perhaps our best year.

Q. That was the year when British saddles were not available?—A. Could be.

Q. And perhaps the United States even were not shipping in very heavily.

By Mr. Marquis:

Q. Were you in business before the war?—A. No, during the war.

Q. You started during the war?—A. That is right. Well then, for the year 1948, after the Geneva Agreement, in January of 1948, United Kingdom shipped in 1,971.

By Mr. Blackmore:

Q. Is that more than the year before?—A. This is just for the months.

Q. Could you give us the figures by months?—A. I haven't these figures by months. I have them for the year. Well, that is the amount which came in from England—and our figure for that period was 608. The figures I have here are just for the first three months of the year.

Q. It seems that your figures are not such as to establish any definite conclusion.—A. Well, you can take it that far, up to the end of March, and it would show definitely an increase in saddles coming in from England.

Q. Would that be because of the tariff adjustment or because British production had increased?—A. There are a lot of other elements enter into it. Some business in Canada have international manipulations, I believe. You take in our experience we met all this. England is only one, the United States also make saddles.

Q. I am sorry, I can't hear you. Would you mind speaking a little louder?—A. My talking difficulty, gentlemen, is that I only have one lung. But I believe it was Mr. Dionne, if I am not mistaken, who said this morning something about the British preference which is exactly my experience. Nobody knows how to do anything about saddles because England—

Q. The conclusion would be then that since British saddles were available they would buy British saddles regardless of this tariff arrangement.—A. There is another element to be considered and that is this, the Wartime Prices and Trade Board figures for instance—we were held to a very, very close margin on our rise in price by the Prices Board, it was less than the rise in price on the English saddle.

MR. BLACKMORE: I suggest, Mr. Jones, that you talk to the men right down to the other end, and then I will listen to you talking to them.

The WITNESS: Right.

By Mr. Michaud:

Q. Could you tell us approximately how much steel goes into the manufacture of your saddles, and what percentage of your cost it forms?—A. That would vary depending on what was available. I might enlarge on that by saying

we have never yet been able to buy from the mills and as a result we have to buy what material is available and that puts us at a disadvantage which is one thing if the price goes up again.

Q. Roughly, what percentage would it be? Would it be 10 per cent, or 20 per cent or 30 per cent?—A. I did not bring the cost figures with me, but I have my reference to the tariff commission where on a particular model of saddle, taking out the other materials, the steel in the saddle would amount to \$1.30—that is all the material going into the saddle.

Q. All the material?—A. The total material, and that includes rubber and leather.

Q. Would you care to make an estimate of the amount of steel that goes into it? By the way, what do you sell your saddles at?—A. You mean, what price?

Q. Yes.—A. We sell at \$2.05.

Q. \$2.05, and the material is roughly \$1.35?—A. \$1.30.

Q. How much of that would be steel?—A. By taking off the major parts from that total I believe it looks like the steel would cost us around 50 cents.

Q. And on that 50 cents you get a reduction on steel, being allowed there a reduction of 20 per cent, or 10 cents per saddle.—A. That is true. I have had three years of this and there is no way I can clear it up now.

Mr. MARQUIS: But in those years you did not have the Geneva Agreement in effect. That has only been in effect the last three months.

The WITNESS: That is right.

Mr. MICHAUD: Mr. McKinnon mentioned something about a reduction in the figures he gave us as applicable before the war, that their goods were coming in here before the war and you then had an advantage of $15\frac{3}{4}$ per cent, and now under the Geneva Agreement they are coming in on a duty of 15 per cent, which is a difference of three-quarters of one per cent. On an article of \$2.05 that would be roughly $1\frac{1}{2}$ cents, whereas the advantage you get on your steel, if the evidence is correctly interpreted, would amount to 10 cents, as against $1\frac{1}{2}$ cents. That would appear to show that the free admission of steel more than offsets the disadvantage which would naturally result from Geneva.

By Mr. Marquis:

Q. Do we understand, Mr. Jones, that since you have that reduction in steel your company finds that it is a pretty good arrangement in comparison with what existed before?—A. Would you state your question again, please?

Q. You say since you have a reduction in steel—

Mr. MICHAUD: Free admission.

By Mr. Marquis:

Q. Free admission of steel your company is finding that the reduction has a great advantage for your company in comparison with what existed since the 1st of January?—A. Yes, it would.

Q. Do you consider it would be satisfactory to have that reduction?—A. Well, that perhaps takes care of that angle of it, but you might bear this in mind, that we have been through the fire for the last three years on this thing and, as a matter of fact, I must admit we have not made a lot of money on it.

Q. And now in order to maintain your operations, as the United Kingdom is ready to put saddles on the market, what you need from your point of view is an increase in the tariff?—A. That would help.

Q. You have to ask for an increase because $\frac{3}{4}$ of 1 per cent does not seem to be a very great change, a very important change, and if your company is affected by that reduction I feel that you could only advocate an increase in the tariff?—A. May I say that I understand that the Geneva Agreement is in effect for three years. It will be in effect for three solid years?

Q. Yes.—A. What chance is there to get a tariff against England?

Q. Leaving the Geneva Agreement out of it for the moment if you keep the same tariff you will have the same goods from England. The goods do not come here due to the Geneva Agreement. If you have the same tariff it will be $15\frac{3}{4}$ per cent. Now it is 15 per cent. The only change as a result of the Geneva Agreement, if I understand correctly, is that $\frac{3}{4}$ of 1 per cent, and you have had a reduction in steel in the last few days.

By Mr. Michaud:

Q. When did you get the reduction, this free admission of steel?—A. That is just effective—

Mr. McKINNON: That is in the budget.

Mr. MARQUIS: So your representations have been heard and some concession has been given to you. Many firms can get concessions in the budget.

By Mr. Manross:

Q. Can you give us the selling price of the English saddles? You say there were 6,879 came in as compared with your 608. How much do they under-sell you, do you know?—A. I have worked out the average of the dollar value of the saddles that come in, but I do not know whether they are all bicycle or tricycle saddles.

Q. You do not know for the model what percentage they are under-selling you?—A. No. I can only get it by dividing one into the other and presuming there are no other types of saddles in that.

By Mr. Marquis:

Q. What is the price of English saddles per unit?—A. The average price in 1945 was \$1.11.

By Mr. Manross:

Q. In Canada?—A. No, this would be—

Q. F.O.B. England?—A. No, there is not sufficient here to tell from this whether that is the landed cost or that the duty is included.

By Mr. Blackmore:

Q. How many saddles would you estimate you would have to sell a year in Canada in order to be able to carry on, supposing that you were selling at the rate you have been?—A. Perhaps we could do the same as we did last year if we got 29,000 or 30,000 saddles, but there is not that prospect.

Q. What do you suggest is the way out of the difficulty? Suppose we do not raise the tariff. It does not seem practical. Would you suggest a quantitative restriction on the entry of saddles from the United States and Great Britain beyond a certain number?—A. That would be fine, but I do not know how far I will get with it.

Q. How many do you want, 28,000? You would want a market for 28,000?—A. We have sold an average of pretty close to 30,000 since we have been in business.

Q. How many could you manufacture if you had a year or two to get ready?—A. We would not need a year or two to get ready to produce at least 100,000. We have never operated, except in 1946, at capacity, and since then we have even enlarged and expanded.

Q. If you were given suitable conditions you could supply the total needs of Canada in respect of bicycle saddles?—A. I could.

Q. Within two years?—A. Yes, easily.

By Mr. Timmins:

Q. Is that your only product, bicycle saddles?—A. It is not the only product, no.

Q. But it is your main product?—A. I am guessing now, but I would say it is pretty close to 90 per cent of our production.

By Mr. Fulton:

Q. You spoke about a reduction in the number of your employees from 26 to 13. I should like to ask you whether you reduced to that number in anticipation of a decline in sales because of British competition or whether you actually found them falling off and so were compelled to lay off the men?—A. Both of those reasons would enter into that.

By Mr. Blackmore:

Q. The figures you gave would indicate that the United States are a more serious competitor than Great Britain?—A. That is right.

Q. What you would probably find best would be a quantitative restriction on United States sales?—A. Yes.

Q. It would seem to be a little more suitable than shutting out their leather.

Mr. HARRIS: Did I understand Mr. McKinnon to say there is some relief in the budget resolutions?

Mr. McKINNON: Not related directly at all to the Geneva reductions, because Mr. Jones has been making representations to the government for some time in connection with the difficulty of securing in Canada the type of cold rolled steel from which he stamps out saddles. As a consequence of those representations for a particular type of cold rolled steel that was put on the free list. I do not mean to imply what was done in respect of steel by way of free listing his requirements necessarily compensated him for the small reduction such as it was in his protection, but that to that extent it compensated him for any reduction that was made.

Mr. HARRIS: When would he get the full benefit of that?

Mr. McKINNON: I gather Mr. Jones has only recently been aware of that himself.

The WITNESS: That is right, this morning.

Mr. McKINNON: Unless I misinterpreted Mr. Jones I believe he said he heard it this morning. It has not had a chance to work through nor do I think by the same token it is quite fair to say that any increase that may have been shown since January or February in imports, particularly from the United Kingdom, was due to the small reduction that became effective on the 1st of January. I do think in fairness to Mr. Jones, because he is not the best witness in the world for himself, that I might state to the committee from all I have ever heard he makes an excellent product, a first class saddle.

Mr. TIMMINS: He has the whole Canadian market.

Mr. McKINNON: He has stated himself today he has the Canadian market pretty much to himself in that he is the only Canadian producer. I do not think he has the whole market. He put his participation in the home market at 60 per cent. Naturally I do not know Mr. Jones' private business affairs, but if he has got 60 per cent of the domestic market then surely a trifling reduction in the rate of duty on imported saddles in the first place cannot be very serious, and in the second place certainly cannot have showed up yet in the trade returns. Mr. Jones, I suppose you sell directly to the bicycle manufacturers, or do you also sell repair and replacement saddles to the trade generally?

The WITNESS: We have been devoting most of our production to the Canada Cycle and Motor Company, and have never gone to the trade.

Mr. McKINNON: In other words, you have only one outlet for your product?

The WITNESS: We were supposed to start today to enter the field ourselves because there was too great a spread from our product to the ultimate consumer.

Mr. McKINNON: Maybe I have opened up something there that is not quite in line.

By Mr. Blackmore:

Q. I cannot quite figure out the figures. The impression I got concerning the number that were imported from the United States and the United Kingdom was so great I cannot see how you could have 60 per cent of the domestic market, thinking of the months of this year?—A. I did not make that statement concerning this year. It was 1946 in which I had the dollar value, and I did half of it.

By Mr. Marquis:

Q. What quantity did you sell from January to March? Have you those statistics?

Mr. FULTON: He gave us those.

Mr. MARQUIS: Then it will be in the record.

Mr. BLACKMORE: May I ask Mr. Kemp a question bearing on this matter? I do not know whether Mr. Kemp is the man who would advise the government in a matter like this. Perhaps he can tell us whether or not it would be feasible to suggest to the government that they put a quota on United States bicycle saddles to keep out those the Canadian manufacturers could replace in the Canadian market. Can you give us any idea about that? Would it be feasible? Since we have shut out United States' celery and lettuce and I do not know what else is it not feasible to contemplate shutting out United States saddles, and if not, why not?

Mr. KEMP: I think perhaps I should ask Mr. Deutsch, who is also here, to answer that.

Mr. BLACKMORE: I did not notice Mr. Deutsch. I am glad he is here. Possibly we could ask Mr. Deutsch with your permission, Mr. Chairman, to look into this matter.

Mr. DEUTSCH: Mr. Blackmore, that is a matter of government decision. There is nothing to stop us from putting them under a quota in connection with our import controls we now have in effect for balance of payment reasons. There is nothing to stop us. It is a matter for decision by the government.

Mr. BLACKMORE: What we are looking for, and we do not want to get you into any difficulty at all, is some sort of means of justifying or condemning—we do not care which—the government's decision in this matter. Why should the government choose to shut out lettuce and celery and let in a vast quantity of saddles that we could manufacture ourselves in Canada, when we are supposed to be looking for American dollars. That question occurs to any common sense mind.

Mr. MICHAUD: The volume in dollars and cents would have a bearing.

Mr. BLACKMORE: I just wonder if Mr. Deutsch can give us a lead on the matter.

Mr. PINARD: Would there be enough supply in Canada?

Mr. DEUTSCH: I gather there has not been in the past.

Mr. FULTON: There is not enough lettuce in Canada either.

Mr. DEUTSCH: I am not directing my answer to lettuce. That is a matter of decision for the government as to whether it wants to control this. It is a matter of import policy. As far as Geneva is concerned there is nothing to stop us from doing it on exchange grounds. It is a matter of decision whether or not it should be done.

Mr. BLACKMORE: Do you see any reason why the United States should be more sensitive about a quota on bicycle saddles than she would be about a quota on celery?

Mr. DEUTSCH: Not offhand I would not see any reason.

Mr. MARQUIS: Probably we use a greater quantity of celery.

Mr. DEUTSCH: I am not trying to comment on the imports because it is not my position to do so.

Mr. MICHAUD: Would you have any idea as to the value of the saddles imported from the United States, and the value of the lettuce and celery imported from there?

Mr. DEUTSCH: I would think offhand the value of the lettuce and celery would exceed that of the saddles.

Mr. MICHAUD: Considerably?

Mr. DEUTSCH: I would think so. I am talking offhand. I have not looked at the statistics recently, but my impression at this moment—

Mr. BLACKMORE: The reason I asked Mr. Deutsch is that I got the impression that Mr. Deutsch would be one of the gentlemen who would advise the government in respect of the commodities to put an embargo against and I thought probably we could get some idea from him.

Mr. DEUTSCH: No. I do not care to comment, Mr. Chairman, on the relative merits of the control on celery or saddles.

The VICE-CHAIRMAN: And it has nothing to do with the Geneva Agreement.

Mr. BLACKMORE: I am not concerned so much about the comment on the relative merits, but I wonder if there is any reason why it would be inadvisable for us to put a quota against United States bicycle saddles?

Mr. DEUTSCH: There may be reasons why it would not be wise. I would have to look into that. I do not like to give offhand answers to things I have not looked into, and I am not in a position to give any informed comment on the question. I would have to look into it. There are many things that are not subject to import control at the present time. Generally speaking we have not controlled raw materials or component parts as a matter of policy.

Mr. BLACKMORE: We have controlled manufactured products?

Mr. DEUTSCH: Finished manufactured goods; generally speaking controls have been put on the finished goods.

Mr. BLACKMORE: Would this be looked upon as a part or finished goods?

Mr. DEUTSCH: Saddles are a part, and a repair part, and generally speaking we have not restricted the importation of parts because if we did restrict the importation of parts it could have a very dislocating effect on industry which depends on the importation of those parts. That is the general situation.

Mr. BLACKMORE: But if you under your own manufacturing were able to produce those parts it would modify the situation.

Mr. DEUTSCH: It does, but I believe that gets into the field of Mr. Howe. The Honourable Mr. Howe has certain controls on capital goods and so forth, and in cases where things can be produced in Canada he is taking steps to save exchange in those cases, but it has to be gone into carefully.

Mr. TIMMINS: By a permit system?

Mr. DEUTSCH: Yes, you cannot just launch helter-skelter into a thing like that because you could create very serious dislocations. That is why we have not pushed into the field without looking into it carefully. In the case of finished consumer goods, of which lettuce is one, dislocations of production do not arise. You decide whether you need that thing or whether you do not, and that is a question of consumption, but when you come to controlling parts or component parts you may set up great dislocations, and therefore you have got to be very careful. Naturally the government took that into account when it drew up the list of goods which were put under control.

Mr. HARRIS: I hope Mr. Jones feels that he has had a very sympathetic hearing from the members of the committee. I think they have been very fair to Mr. Jones. I am also hoping that the relief he will get in being able to bring in tubular steel to make stampings will give him some assistance. I would point out to Mr. Jones what he has said will be gone over by all departments, and I am quite satisfied he will get a sympathetic hearing on any of the details that may emanate from today's discussion. At the same time in my judgment the committee appreciates very much your coming down here from Stratford on your own behalf and answering the questions that have been asked.

Mr. MARQUIS: Following the remarks of Mr. Harris I wish to thank Mr. Jones. It is not a question of the size of the company. The business is important to the committee, and I think the members of the committee are very glad to have heard him.

The VICE-CHAIRMAN: Mr. Harris, at the last meeting of the committee you said one of the members of the House who is not a member of the committee is particularly interested in this matter, and in due course when we convened he would like to have the privilege of making certain observations which have occurred to him.

Mr. HARRIS: I referred to the honourable member for Perth, Mr. Bradshaw.

The VICE-CHAIRMAN: Does he wish to say anything?

Mr. BRADSHAW: I do not want to take up any time. Mr. Jones appealed to me on his behalf, and while I did not understand his whole position at the time I had him come down here. He was down here last week and interviewed some of the departments. Then I interviewed the chairman of our own Trade and Commerce Committee and he brought the subject up at your last meeting. That is all I can say. On behalf of Mr. Jones I wish to thank the committee for hearing him.

The VICE-CHAIRMAN: That concludes the list of witnesses who have been asked to come before us. The other companies concerned have been communicated with and we have received their reply by telegram that they have no recommendations to make to the committee and that they do not want to come here as witnesses. That leaves two matters on the agenda: The Board of Trade of Montreal have not answered our last communication of April 30; and the President of the Canadian Importers and Traders Association, to whom we again wrote on May 19, has not replied. So as far as the committee is concerned that gives us a free slate. I suppose there is now the matter of the report to be considered.

(Proceedings continued in camera).

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(SESSION 1947-1948
HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 13

Consideration of Bill No. 333,
intituled,
"An Act respecting Income Taxes"

TUESDAY, JUNE 15, 1948

WITNESSES:

Hon. D. C. Abbott, Minister of Finance;
Dr. A. K. Eaton, Assistant Deputy Minister of Finance;
Mr. W. R. Jackett, Assistant to Deputy Minister of Justice;
Mr. Charles Gavsie, Co-ordinator and Chairman of Executive, Taxation
Division, Department of National Revenue.

OTTAWA
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1948



ORDERS OF REFERENCE

TUESDAY, 8th June, 1948.

Ordered,—That the following Bill be referred to the said Committee:—
Bill No. 338, An Act respecting Income Taxes.

FRIDAY, 11th June, 1948.

Ordered,—That the name of Mr. Gillis be substituted for that of Mr. Argue on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, ROOM 277,
TUESDAY, June 15, 1948.

The Standing Committee on Banking and Commerce met this day at 3.30 o'clock p.m. Mr. Hughes Cleaver, Chairman, presided.

Members present: Messrs. Abbott, Arsenault, Beaudry, Belzile, Benidickson, Black (*Cumberland*), Bradette, Breithaupt, Cleaver, Cote (*St. John's-Iberville-Napierville*), Dechene, Fleming, Fraser, Fulton, Gillis, Gour (*Russell*), Hackett, Harkness, Harris (*Danforth*), Jackman, Jaenicke, Lesage, Macdonnell (*Muskoka-Ontario*), Marquis, Nixon, Pinard, Rinfret, Stewart (*Winnipeg N.*), Timmins.

In attendance: Hon. J. J. McCann, Minister of National Revenue; Mr. V. W. Scully, Deputy Minister of Taxation, Department of National Revenue, Mr. A. K. Eaton, Assistant Deputy Minister of Finance; Mr. W. R. Jackett, Assistant to the Deputy Minister of Justice; Mr. Charles Gavsie, Co-ordinator and Chairman of Executive, Taxation Division, Department of National Revenue.

The Committee had before it for consideration Bill No. 338, On Act respecting Income Taxes.

Hon. D. C. Abbott, Minister of Finance and a member of the Committee, read a brief statement regarding the said Bill. In the course of his statement he filed a list with the names of the organizations and individuals who had made representations and submitted briefs to him with reference to Bill No. 338, and this list was ordered printed as Appendix "A" to to-day's Minutes of Proceedings and evidence.

The Chairman informed the Committee that communications had reached him prior to the meeting from the following:

1. Telegram—Secretary, Alberta Wheat Pool.
2. Brief—Submitted jointly by The British Columbia Loggers' Association, The British Columbia Lumber Manufacturers Association, The Canadian Lumbermen's Association.
3. Brief—Submitted jointly by Ontario Mining Association and Canadian Metal Mining Association.
4. Brief—Submitted by Canadian Council of Professional Engineers and Scientists.

The Clerk was instructed to mail a copy of each of the above communications to every member. (*This was carried out at 6.00 o'clock p.m.*).

After some debate as to whether or not oral representations would be received, it was agreed to defer any decision in the matter until such time as the Committee had reached such clauses in respect of which requests for oral representations have been received.

The Committee forthwith proceeded to the consideration, clause by clause, of the Bill.

The Minister answered numerous questions on each one of the clauses. He was assisted in explaining the purport of each of such clauses by Messrs. Eaton, Jackett and Gavsie.

At 6.05 o'clock p.m. the Committee adjourned to meet again at 8.30 o'clock p.m. this evening.

EVENING SITTING

The Committee resumed at 8.30 o'clock p.m. Mr. Hughes Cleaver, Chairman, presided.

Members present: Messrs. Abbott, Arsenault, Belzile, Benidickson, Black (Cumberland), Breithaupt, Cleaver, Fleming, Fraser, Fulton, Gour (Russell), Gillis, Hackett, Harkness, Isnor, Jackman, Jaenicke, Lesage, Macdonnell (Muskoka-Ontario), Marquis, Nixon, Pinard, Rinfret, Stewart (Winnipeg N), Timmins.

In attendance: Hon. J. J. McCann, Minister of National Revenue, and the same officials as are named in attendance at the afternoon sitting.

The Committee resumed consideration, clause by clause, of Bill No. 338, An Act respecting Income Taxes.

The Minister of Finance, Hon. D. C. Abbott, assisted by Messrs. Eaton, Jackett, and Gavsie, in reply to questions by the members of the Committee, explained each clause as it was reached.

At the end of the day's sitting the Committee had adopted every clause from 2 to 27 both inclusive, with the exception of clauses 8, 11, 12, 13, 16 and 22 which stood over partly or in whole for further consideration and amendments where necessary.

At 10.20 o'clock p.m. the Committee adjourned to meet again at 3.30 o'clock p.m. Wednesday, June 16, 1948.

ANTOINE CHASSÉ,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
June 15, 1948.

The Standing Committee on Banking and Commerce met this day at 3.30 p.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: Gentlemen, we have a quorum. If it is your wish Mr. Abbott will make a general statement in opening.

Hon. Mr. ABBOTT: Mr. Chairman, it would perhaps be appropriate at the commencement of the committee's work on bill 338 for me to make a brief statement regarding it.

As I said upon introducing this bill last year, a measure of this kind is definitely non-partisan in character. I think all parties agree that we must have an income tax. We are unanimous in our desire to see the best possible law on our statute books. All will agree that we should strive for simplicity and certainty, and that the law should lend itself to efficient administration. It is, of course, a matter of policy how far the income tax shall be used for raising revenue and how the burden shall be distributed, but however diverse the views may be in this field I think we are all on common ground in striving for the best possible form of law for the purpose.

The committee will recall that this measure was introduced in the House as bill 454 in the closing days of the session last summer. My purpose is doing that was to give members of the House and the public generally full opportunity to study the new bill before the present session. This gave an opportunity to interested persons to explore various aspects of the new legislation and to give to the government the benefit of their views in the meantime.

The volume of representations which I have received over the last year has fully justified my belief in the desirability of this procedure. I have kept a careful record of those who have made representations to me direct regarding the new bill, and I may say that the list is impressive. I have received suggestions from coast to coast, and from practically every organized group in the country. Various individuals have written in commenting on particular sections of the law, and these comments have been extremely useful. In addition to the individual representations regarding the new bill I have received from various organizations briefs which have attempted a comprehensive analysis of the whole bill with comment on it section by section. While it is impossible for me to refer individually to all the briefs which I have received, I should like to mention the excellent work done on the new bill by the Canadian Tax Foundation, the Canadian Bar Association, the Dominion Association of Chartered Accountants, the Canadian Chamber of Commerce, and boards of trade of various important cities.

These representations have been extremely helpful, and I should like at this time to pay tribute to the constructive work that has gone into the various briefs submitted to me.

I shall leave with you, Mr. Chairman, a list of the various organizations and individuals who have made representation and submitted briefs, for it might be useful to have that list for the purposes of the record of the committee.

The CHAIRMAN: Is it your wish, gentlemen, that this list should go on the record as an appendix?

(List appears as Appendix "A".)

Hon. Mr. ABBOTT: While the present bill 338 differs in some detail from bill 454 which was submitted last year, I think it is a fair statement to say that the fundamental plan as set up in bill 454 has been preserved, and that the changes introduced are more in the nature of refinements and improvements in the form of the bill rather than being marked departures from the original principles contained in bill 454.

As I stated in the House the other day, I have attempted as far as possible to avoid significant policy changes in this bill. My view is that important items of policy should be a matter of budget announcement and subject to the regular political debate which surrounds the budgeting process. Accordingly, I have attempted as far as possible to make this bill essentially a drafting revision, although as most members will know any change in wording may result in a different interpretation by the courts which can change the burden of taxation.

An attempt has been made to improve the arrangement of the law, to remove ambiguities, and to generalize certain provisions which in the old law dealt with specific situations. Over the past thirty years various provisions have been inserted to take care of particular situations. These special provisions intermingled with the main body of the law have tended to confuse the main pattern of the legislation. One of the changes in arrangement which I think will add to the clarity of the law is the plan of setting up special sections for special cases following the main body of the law. Special groups only are interested in these particular provisions—such as for instance taxation of trustees—and it is unnecessary that they should, shall I say, clutter up the main body of the law. The definition section, which is quite long, has been transferred to the final part of the Act rather than having it precede the main body of the law. This, I think, is an improvement.

One of the most general complaints of the present Income War Tax Act is against the extent of ministerial discretion. Bill 338 has retained very few of these cases where the minister is to exercise discretionary power. It is possible that we have gone too far in this direction. There are some situations where ministerial discretion is the only fair way to have certain questions settled. It is a device which avoids the rigidity of a written statute, and it is a means whereby real cases of hardship may be avoided. Frequently the law cannot anticipate all the situations which may arise, and in the absence of ministerial discretion there is no alternative to enforcing the letter of the law.

In connection with the elimination of ministerial discretion, the committee is aware that the Income Tax Appeal Board will concurrently be functioning. This will be an easily accessible court where the costs to the taxpayer for his day in court will not be more than \$15.

As I have said on other occasions, a great deal of work has been put in by the draftsman of the new bill. I trust that the general arrangement will commend itself to the committee.

The CHAIRMAN: Thank you, Mr. Abbott. Are there any question of Mr. Abbott before we proceed with the bill?

Mr. MACDONNELL: There is one question which perhaps might be asked here. I have of course noted what the minister said about the wide measure of discretion which there has been but, notwithstanding that, I would like to raise a question as to whether affected parties wishing to have a hearing before this committee will be given the opportunity. I have been one of those who were very anxious to see the bill progress as fast as possible and we all agree that what is of supreme importance is that the bill is as fair and complete as possible. Therefore, it would seem to me that it is not desirable, even in the interests of speed, to exclude any legitimate representation which is desired to be made. I have no one in mind at the moment but I thought this would be the best time to raise the question.

Hon. Mr. ABBOTT: That of course would be in the hands of the committee. My view respecting verbal representations before the committee would be this. Since the purpose of this bill is not to change policy matters but to try and rearrange and simplify the existing tax statute, it is going to be difficult to conduct a prolonged investigation on tax policy matters. If we hear representations from one group I would think it would be almost inevitable that we would have to and probably should hear representations from a good many others.

My thought was this, that in view of the work that has been put on this bill, the time which has been allowed to elapse for the submission of written representations, we should try to put it on the statute books now. It will become effective as proposed only from the 1st of January next, and as the committee will appreciate if, as is quite likely to be the case, there are still some bugs in it here and there, there will be an opportunity to correct those in the amending Act which will have to be brought in with next year's budget. I think it is safe to say that the Income Tax Act must of necessity be reconsidered and amended to some extent each year.

I would hope that the committee would not feel it was necessary to hear verbal representations now but, of course, if a case was made where it was felt really desirable to do so that would rest with the committee. My own view is that it being essentially a drafting job there has been ample opportunity for those interested to put their submissions forward in writing as they have done.

Mr. MACDONNELL: May I make a suggestion? I have no knowledge that anyone at the moment has asked to make representations. Can we leave that question open? Maybe it will not arise.

Hon. Mr. ABBOTT: Oh, quite.

Mr. MACDONNELL: As long as we understand that it can be considered.

Hon. Mr. ABBOTT: Oh yes, I do not want to take a dogmatic attitude at all. I think it would be wise to leave that open.

Mr. FULTON: I should like to ask whether any requests have been received asking to be heard?

The CHAIRMAN: I was going to advise the committee that I have three letters and one wire with attached representations. My suggestion would be that I would have the committee clerk have mimeographed copies made of these briefs and sent to every member of the committee. As we proceed with our work the members of the committee can read up on those briefs and should the occasion arise wherein a majority of the committee feel that there should be evidence called of an explanatory nature to explain a given brief why then, of course, I am in the hands of the committee. In the meantime I will see that every member of the committee receives copies of all representations that come to the committee immediately they are received. If that is satisfactory we will carry on in that way.

Mr. FULTON: The only thought that occurs to me there is this. I do not know what representations are in the communications you have received, or what sections of the Act they wish to be heard on, and it might be if we proceeded now we might pass some of the sections on which various bodies wish to make representations before we have received the mimeographed copies. I wonder if you could indicate—

The CHAIRMAN: Yes. The Ontario Mining Association and the Canadian Metal Mining Association, a composite one; the Canadian Council of Professional Engineers and Scientists; the British Columbia Loggers Association, the Lumber Manufacturers Association, and the Canadian Lumbermen's Association. In a hurried glance through them I would say they all have to do with depletion.

Hon. Mr. ABBOTT: May I interject that as to that section, of course, I have had similar representations and if we should reach it today I would ask that

the section should stand in order that my own departmental officials may give consideration to those representations and to others which I received.

Mr. FULTON: Then we would have an opportunity to decide whether we should hear individuals?

Hon. Mr. ABBOTT: Quite so. I think the committee will find, if I may say so, that it is unnecessary to hear them.

The CHAIRMAN: If I may complete this for the record, the final representation I have is a wire from the Secretary of the Alberta Wheat Pool.

Mr. JAENICKE: May I ask the minister a question? Does the minister mean that we cannot propose any amendment that would affect policy?

Hon. Mr. ABBOTT: Well now, my answer to that must be that I would have to take the same stand here that I must take in the House with respect to a money bill. I think it would be quite competent for a member of the committee to propose an amendment which affects policy which does not primarily affect let us say the balance of ways and means, and there are a good many cases of that in the bill. But the powers of the committee here would be exactly the same as the powers of the House in committee of the whole. That is my understanding of the rules as applied to amendments.

Mr. MARQUIS: I would just like to say in passing that it appears to me there is some anomaly in the law. Apparently we can propose amendments so long as they do not affect ways and means. As I see it, I do not think it would be in order to bring in any amendment which would remove a section of the bill. However, I wish the minister would let us know what the authorities have to say as to that.

Hon. Mr. ABBOTT: I wonder. It is pretty hard to give a general ruling as to what would be in order at this stage on various points. Could we not deal with them when we come to the particular sections?

Mr. MARQUIS: Could we not consider it as an amendment?

Hon. Mr. ABBOTT: Off hand I would think it would be in order.

Mr. FULTON: Surely, Mr. Chairman, it would be open to the committee to pass a resolution by way of amendment.

Hon. Mr. ABBOTT: Oh, yes.

Mr. FULTON: Then the committee would be free to make changes in the act. I mean, if the strict interpretation the minister puts on it were applied I think it would be that we could not pass any resolution which if adopted would result in upsetting the balance of ways and means. Surely you didn't mean that. Surely we can pass a recommendation by way of resolution that this or that change be made in the act, even though if that were adopted it would result in a loss or reduction of revenue.

Hon. Mr. ABBOTT: I am not much of an expert on rules but I would think it would be open to the committee to take any recommendation that the government should consider doing such and such a thing; but if it came to the amendment, for instance, of a section of the act which is the charge, the taxing section, I do not think it would be within the competence of this committee or the House in committee of the whole to amend that section. That is the essential section of a money bill, and I would think it would have to be preceded by resolution in the usual form presented by a minister of the crown with the approval of the governor general.

The CHAIRMAN: The minister has been good enough to indicate that he hopes to be in attendance on the committee at practically the whole of our sittings.

Mr. MARQUIS: As I understand the minister, his view is that the committee would be free to make recommendations, but that its power with respect to amending sections of the act would be limited by the rules which apply in the House; that only a minister of the crown can move an amendment to a money bill, as he has stated.

Mr. GILLIS: On this matter of representations, have you had any representations from the Co-operative Union of Canada for changes in the sections?

Hon. Mr. ABBOTT: The Co-operative Union of Canada and a great many other co-operatives as well filed with me as minister of finance very carefully prepared briefs. They were filed some time ago, in fact were filed before the budget was brought down. One or two of their minor recommendations were accepted. The Prime Minister and some members of the government met a large delegation from the co-operative this morning, and some of the major points which they have been stressing—the three per cent rule and the definition of payment and the question of reserves, were again presented. Now, these are substantial matters of policy. I explained to the meeting that some of those were still being considered; that the three per cent rule is one that we have been considering for some time, but that it had not been my intention to settle policy questions at this time in the banking and commerce committee; that those were matters for government decision and presentation as a budget amendment, and for debate in the whole House. I think that the delegation were satisfied with that statement. I think they had been under the impression that opportunity was going to be afforded before the banking and commerce committee to present policy questions as well. I explained that it was only a couple of weeks ago that I really came to the conclusion that it would perhaps expedite matters to bring the matter before the banking and commerce committee, but up to that time I had contemplated handling it in the House in committee of the whole in the regular way. That is the position with respect to the co-operative unions, and I think the individual co-operatives. There are major questions there which I think are policy questions and would have to be settled by the government and then brought into the house for approval.

Mr. GILLIS: There was no mention made of them at all.

Hon. Mr. ABBOTT: In the list that has been tabled I think we have had more representations from organized co-operative unions and from individual co-operatives than from possibly any other single group.

Mr. FULTON: Will the minister have any announcement to make in the course of the bill with respect to any changes affecting co-operatives? Are you contemplating any amendments?

Hon. Mr. ABBOTT: The only amendment I contemplate making is with respect to a provision having to do with co-operatives enacted this year, implementing the proposals put forward in my budget speech. Any further amendments will have to come as a result of further consideration by the government resulting from representations made by the associations.

It is possible that there will be a change in the section which relates to a policy matter, which is perhaps a minor one, from the point of view of the general taxpayer.

Following a meeting with the representatives of the co-operative union, their solicitor, Mr. Francis, was going to discuss this minor change with the officials of the Department of Justice and with my departmental officials.

I have not had an opportunity of going into this matter as yet, but if we reach that question before we have an opportunity, we will let it stand.

Mr. FULTON: Which section will it be.

Hon. Mr. ABBOTT: The section relating to the definition of "payments".

Mr. FULTON: Under division (f)?

The CHAIRMAN: Page 49.

Hon. Mr. ABBOTT: Section 68, subsection 4, on page 49.

Mr. JAENICKE: Have we got the terms of reference from the house with respect to this bill?

Hon. Mr. ABBOTT: What was that?

Mr. JAENICKE: Have we got the terms of reference from the house with respect to this bill?

Hon. Mr. ABBOTT: The bill is simply referred to the Banking and Commerce Committee; the principle of the bill is approved upon second reading and it is then referred to this committee.

Mr. JAENICKE: Just like any other bill?

Hon. Mr. ABBOTT: Just like any other bill. My view is that the consideration which is then given to the bill is on all fours with the consideration given by the house in the committee of the whole. But, after having been considered here, it is again considered in the house by the committee of the whole.

Usually when a bill has had a pretty careful scrutiny by the Banking and Commerce Committee and goes back to the house upon amendment acceptable to the government, the proceedings of the Committee of the whole are expedited.

The CHAIRMAN: The actual wording of the reference would read in these words: Ordered that the following bill be referred to the Committee on Banking and Commerce; and then the title of the bill.

Now, if there are no further general questions—

Mr. FLEMING: Has there been any intimation from the Tax Foundation that they would like to be heard before the committee.

Hon. Mr. ABBOTT: No, there has not. The Tax Foundation has been extremely helpful in this case.

The officers of the Foundation asked about the proceedings before the committee, what form they were likely to take, and I said, that my view was that it was unlikely that we would go into the question of hearing verbal representations from a great many organizations. It would seem more satisfactory to rely on those which had already been put in. So far as I am aware, that is quite satisfactory to the Foundation.

Mr. FLEMING: If the commissioner has advised the Tax Foundation and perhaps others as well that oral representations might not be desirable before the committee, it may be that if the committee felt it would like to hear oral representations the Tax Foundations and others would care to make them. I wonder if the committee should not give consideration to that question, Mr. Chairman?

The CHAIRMAN: You were not here at the opening of the committee and this matter was brought up then. The way the matter stands is that representations made to the committee by way of letters, briefs or otherwise will be mimeographed and immediately delivered to every member of the committee. In this way the members of the committee can study them as we go along. If any occasion arises for a point to be brought up, it will be brought up either in the general committee or the steering committee.

Mr. FLEMING: That would be for the written representations, but what about the oral representations?

The CHAIRMAN: I have already indicated to the committee I have four representations on my desk now.

Mr. FLEMING: I was dealing with the oral representations.

Mr. MACDONNELL: Was it not also understood that if any case arose where oral representation was desired, the way would be open for it?

The CHAIRMAN: Yes, the matter is entirely in the hands of the committee. So the committee will know what is going on, any representations which are made will be immediately communicated to the members of the committee.

Gentlemen, if you have finished your general observations—

Mr. BLACK: As I understood the statement of the minister, there are no changes in this bill having to do with co-operatives and none will be permitted in this committee?

The CHAIRMAN: It is very difficult to hear you Mr. Black. Could you repeat what you said?

Mr. BLACK: I understood from the statement made by the minister in reply to Mr Gillis no changes had been made in this bill before this committee. There are no changes in the legislative provisions and it is not the purpose of the government to accept any amendment to the provisions with respect to co-operatives?

Hon. Mr. ABBOTT: I think my position on that can be stated simply. I do not think major amendments to the income tax law could be made in the Banking and Commerce Committee. I think those are properly subject to a decision by the government and brought in as budget proposals to be debated in the House as a whole. This committee is being asked to consider a consolidation of the re-drafting of our existing income tax law. There may be some incidental questions of different language but it is not my intention to bring in further major amendments on questions of policy relating to either co-operatives or any other class of taxpayer at this session of parliament.

Mr. BLACK: There are no changes whatever in this Act over previous legislation?

Hon. Mr. ABBOTT: Drafting changes only; as I said in my preliminary statement, I have tried to avoid any major policy changes.

Mr. HACKETT: I admire the frankness of the minister but if he has correctly stated the proposal, are we not almost wasting our time here? If this is to be, why don't we vote.

Hon. Mr. ABBOTT: As I explained before you came in, I feel what we are doing here is what the House would be doing in committee of the whole on this bill. Since this is a rather technical subject, after I discussed it with various members of the House, it seemed to me detailed consideration of the clauses could be more efficiently handled here in the Banking and Commerce Committee than in committee of the whole House. But, in the same way that I could not permit amendments to a money bill in the committee of the whole House, they cannot be allowed in the Banking and Commerce Committee. I think very valuable work could be done here on the drafting job.

Mr. HACKETT: I do not want to indulge in a controversy, but if this income tax bill is to be placed in the position of a money bill, are we not denying ourselves or is not the administration denying itself the benefit of discussion?

Hon. Mr. ABBOTT: Well, the Income Tax Act is one of the most important money bills on the statute books.

Mr. MacDONNELL: Could the minister not accept this statement? Is not this Act a mechanism which the government uses in its future taxation measures and even though something we pass here might, let us say, effect the productive value of one of these sections, nevertheless, the government when it brings in its money bill could adjust its rates so as to get more from that. In other words, if I am correct in stating that this is purely a piece of mechanism and does not, itself, determine what actual rate of tax is to be paid, as I think it does not, then it is not a money bill.

If I may just add one other word. The minister has already indicated that amendments are to be made—indeed he has told us he is contemplating one already—

The CHAIRMAN: I think amendments, as I understand it, would be perfectly in order with respect to the machinery but not with respect to the amount of taxation.

Mr. HACKETT: My remarks were directed to bill 338.

The CHAIRMAN: Bill 338, unfortunately, is a composite bill which contains the machinery as well as the amount of taxation.

Mr. HACKETT: Just let me say this in a hurry. It seems to me unfortunate—

Mr. BREITHAUP: The committee at this end of the room is not getting the benefit of the conversation taking place at that end of the room.

Mr. HACKETT: I am very happy that Mr. Breithaupt should think that this conversation should interest the committee as a whole. It seems to me unfortunate that we should be dealing with an Act which we hope will be useful for many years and find it in such a brittle condition that it cannot be amended or improved because it is tied up with a money bill. If I have correctly understood the situation it seems to me we are losing time in debating it, if it cannot be amended. I was hopeful that the minister would throw some light on it.

Hon. Mr. ABBOTT: Perhaps I have not made myself quite clear. I was thinking there would be a great many sections of this bill which may be amended in this committee, amended quite substantially, in the same way those same sections could be subject to amendment in the committee of the whole House.

I do not think, for instance, a section such as section 31 which sets out the rates of tax applicable to individuals and the like could be amended. I cite that as an example of a place where this committee could not amend a section. I do not think this committee could amend the charging section which is section No. 2; that is the most important section of this bill. It is the section which imposes the tax on the subject. Now, I cite those as examples of places where the committee could not amend. It might suggest a better wording. I do not think it could amend in substance.

However, I think there are a great many sections which the committee would be perfectly free to amend.

Mr. JAENICKE: We could pass a resolution recommending amendments to the government, could we not?

Hon. Mr. ABBOTT: I suppose so. The committee can pass any resolution recommending consideration on anything, but it could not amend certain sections without the concurrence of the—

Mr. JAENICKE: Yes, I realize that.

Mr. MACDONNELL: Is not the commonsense of it the fact that we cannot do anything that will change the government's revenue during the current year?

The CHAIRMAN: Section 2, subsection (1). Are there any questions?

Mr. TIMMINS: The word "resident" in subsection (1) really means that a person who is engaged in business outside the borders of Canada but is ordinarily resident in Canada, is going to be taxable under this section. Is that not so?

Hon. Mr. ABBOTT: Perhaps Mr. Jackett could answer your question.

Mr. JACKETT: There is no change from the Income War Tax Act; that is the general basis of taxation in the present Act, and it will continue to be so. If he is carrying on business outside of Canada, he will pay a tax there and he will get a tax credit here.

Mr. TIMMINS: There is a reciprocal arrangement later in the Act covering that?

Mr. JACKETT: That is right.

The CHAIRMAN: Mr. Jackett, are there any substantial changes made in the law by section 2?

Mr. JACKETT: Generally speaking, it is the same. The law has been simplified; some of the very special provisions that were in section 9 of the Income War Tax Act for bringing in special classes have been dropped.

Mr. RINFRET: Are you dropping the 183 days, for instance?

Mr. JACKETT: No, the 183 days is still in. It is still covered in the definitions.

The CHAIRMAN: Are there any further questions on section 2? Shall section 2 carry?

Mr. FRASER: No, section 2, part (3) reads,

The taxable income of a taxpayer for a taxation year is his income for the year minus the deductions permitted by Division C.
I just received a letter this morning which says that the Toronto *Daily Star* of the 29th of May, 1948, reported on a decision of Mr. Justice O'Connor wherein the learned judge held, contrary to the departmental attitude, that a husband whose wife was engaged in business by herself, or jointly with her husband, or engaged in a profession and had an income of more than \$660, would not lose his married status.

The CHAIRMAN: Mr. Fraser, would it not be wise to defer that question until we come to section 25?

Shall section 2 carry?

Mr. LESAGE: I see in subsection (3) it says,

The taxable income of the taxpayer for a taxation year is his income for the year minus the deductions permitted by Division C.

The CHAIRMAN: You will find Division C at page 16 of the bill.

Mr. LESAGE: I just want to draw attention to the fact it seems to me section 33 of the bill, which is in Division E does allow certain deductions and it is not mentioned in the definition of taxable income as an exception.

Hon. Mr. ABBOTT: That is a deduction from tax, Mr. Lesage. These are deductions from the gross income before calculating the tax. Section 33 provides for a tax credit, a deduction from the tax after it has been calculated. The deductions here are deductions from the gross income before arriving at the taxable income.

The CHAIRMAN: Shall section 2 carry?

Carried.

Section 3, Computation of Income. Shall the section carry?

Carried.

Section 4?

Mr. FULTON: Mr. Chairman, I wish to raise a question here. I will try to do it and avoid what the minister has asked us to avoid, that is making any suggestions which would immediately affect the revenue this year. The point was referred to in the budget debate and I think it should be given consideration when we are debating this matter of definition, if you like, of income.

Many members of the committee will be familiar with the position where the small business man wishes, let us say, to bring his two sons into the business. He would like to incorporate. He finds if he does so he will have to pay two taxes, one corporation income tax and the other a personal income tax. There is no way in which that poor business can avoid paying a double tax if it incorporates. I should like to recommend to the government that some exemption from tax be given to that type of small business, providing the company

does not offer shares for subscription by the public. Some exemption could be given to that company up to a specific amount of income because all the profit is divided between the shareholders. A tax is paid on it by the company and it is subject to personal income tax in the hands of the individual. I was going to suggest it should be exempt up to about \$25,000 a year, otherwise a double tax is paid upon it. This is quite discouraging to incorporation.

Hon. Mr. ABBOTT: That is true, but it is also true of the individual. It is quite true. However, the same thing applies to every private corporation and it applies to every public corporation, too. A public corporation is also owned by shareholders. The corporation pays a tax at the corporation rates and then the dividends when received by the shareholders are taxed.

What you are suggesting is something analogous to the old family corporation provision which used to be in the Act many years ago and which was finally discontinued. As you appreciate though this is a major policy matter which does effect substantially the revenue of the government.

In practice, in a good many of these small companies, I believe the profits are largely absorbed in salaries because the shareholders are the executives and workers in the company.

Mr. FULTON: Then, the point arose, if they wanted to leave any portion of their profits in the business for re-investment and expansion of the business they are taxed on that as well.

Hon. Mr. ABBOTT: I am familiar with the problem and what you say is an individual does not incorporate himself, he cannot accumulate capital except out of tax paid income. The same rule should be applied to corporations as to individuals. However, the point you are raising is that there is some double tax. What they could do is to pay the corporation tax and leave the profits in the business then they do not pay any personal income tax as long as it is not distributed in dividends.

Mr. FULTON: It is largely discouraging both to re-investment of profits and the incorporation of small businesses. We have, in our law, recognized the corporate principle. There are certain benefits which people receive from incorporation. At the moment, because of our tax system we are preventing them from taking advantage of those benefits.

Hon. Mr. ABBOTT: One of the main benefits received from incorporation is limited liability. A man who is in business by himself or with a partner does not have the advantage of limited liability in the event of misfortune. One of the advantages of incorporation is this limited liability. There are others, but that is one of the main advantages. The State gives that benefit and imposes certain charges for it, I suppose.

Mr. FULTON: As I say, obviously it could not be accepted this year as an amendment to the Act. What I really wish is to ascertain whether the minister or the department has considered the question of allowing some exemption, even if it is limited to income which is re-invested in the business and thereby encouraging the expansion of new enterprises in Canada in the future?

Hon. Mr. ABBOTT: Well, that is a matter on which I would find it difficult to express any view now. It is a matter which would have to be considered and would have to be the subject of a budget presentation. My present inclination would be against such a proposal but I have not given it any consideration for years, not since the question of the old family corporation provision was taken out of the Act.

Mr. FULTON: Then, there is no way in which double taxation could be avoided, and there is no way of recommending any provision which would avoid double taxation?

Hon. Mr. ABBOTT: That is a very large question and one which is extremely difficult. One way of eliminating double taxation would of course be to eliminate the corporation tax.

Mr. MACDONNELL: Could I ask a question? I believe the point raised by Mr. Fulton is a very good one. I heard the minister say he had not given any thought to this matter for years. I mentioned it in my budget speech so I rather hoped the minister had given some consideration to it. I would suggest there is a real point here, not so much now when the goose hangs high, but when we reach the point where enterprise is really important and is appreciated more than it is now. I think this is a matter which might receive very serious consideration because I believe Mr. Fulton has not in the least exaggerated the discouraging feature from the point of view of people starting small businesses. The money left in the business is subject to a heavy tax.

The CHAIRMAN: Shall section 4 carry?

Carried.

Section 5?

Mr. JAENICKE: There is a difference at the end of section 5 in bill 338 as compared with section 5 in bill 454. For instance, this second section has been left out entirely. What is the explanation for that?

Hon. Mr. ABBOTT: That was a proposed change which was eliminated because, on consideration, it was found there would be almost insuperable administrative difficulties.

Mr. MACDONNELL: If, in each case, we were told what the changes are, it might help us in our deliberations.

The CHAIRMAN: As each section is called, if Dr. Eaton, Mr. Jackett or Mr. Gavsie could communicate what changes are made, it might be helpful.

Mr. JAENICKE: There is apparently some right taken away from an employee there.

Hon. Mr. ABBOTT: It does not exist now in the Income War Tax Act. It does not exist today. We had thought, in drafting bill 454, that perhaps it could be done. On further consideration it appears it is not administratively feasible. However, that right does not exist under the law as it stands now.

Mr. JAENICKE: I thought we might have an explanation as to what the effect of it would have been. What is the effect of section 5 in bill 454 and as it reads now?

Hon. Mr. ABBOTT: The second point was that it was clear it could not be confined to wages and salaries, but would have to be extended to all other kinds of income, dividends and interest and things of that sort.

Mr. JAENICKE: Would you care to elaborate on it?

Hon. Mr. ABBOTT: I am told I have pretty well covered it.

Mr. JAENICKE: I do not know what is dealt with in paragraphs (g), (h) and (j) of subsection (1) of section 11. I suppose I could look it up.

Mr. JACKETT: Paragraph (g) of subsection (1) of section 11 deals with the employee's contribution to pension funds. Paragraph (j) deals with the alimony payments he has to make. Subsections (7) and (8) of section 11 are the new provisions which we put in the Income War Tax Act this year in respect of expenses of salesmen and expenses of transport employees.

The CHAIRMAN: What is the last reference to section 11?

Mr. HACKETT: Subsections (7) and (8) of section 11 which are to be found on page 10 of the bill.

Mr. JAENICKE: You mean to say that was not in the Act before? You mean to say a salesman had no right to claim expenses?

Hon. Mr. ABBOTT: That was a budget provision this year.

Mr. JAENICKE: A salesman had no right to deduct his expenses previous to this year?

Hon. Mr. ABBOTT: There was a question, before the amendment made this year to the Income War Tax Act, as to whether persons who received their income from commissions in the sale of property or for the negotiating of contracts were entitled to deduct from those gross commissions the expenses incurred in the earning of those commissions. Now, that has been made clear. I mentioned it in my budget speech and it was covered in the amendment to the Income War Tax Act which we put through the House the other day. This is the corresponding provision in the bill which is before the committee.

Mr. FRASER: May I ask a question, Mr. Chairman, in connection with the travelling expenses and allowances? Are they all the same? I understand you have allowed a rate of 4 cents a mile, is that correct?

The CHAIRMAN: I think, Mr. Fraser, if you would wait and ask your question when we come to the proper section, it would be helpful.

Mr. FRASER: What section would that be?

Hon. Mr. ABBOTT: It is subsection (7) of section 11. These are really statutory travelling allowances, if I may so describe them, such as a judge's statutory allowance of \$10 a day; the travelling allowances fixed under the service regulations and these diplomatic travelling allowances and special representation allowances to members of the diplomatic service. The regular expenses for travelling are under section 11 on page 10. They apply to all taxpayers.

The CHAIRMAN: Shall section 5 carry?

Carried.

Section 6?

Mr. MACDONNELL: I should like to ask a question on section 6. I would be grateful for an explanation of subsections (e) and (f). I suppose I am wrong, but it seems to me there is an extra amount gets in there.

Mr. JACKETT: At the present time the only provision for doubtful debts is a prohibition against a deduction for reserves except such amount as the minister may allow for doubtful debts. After considering a number of representations we put in four provisions; one with regard to the inclusion of amounts which have been deducted in the previous years for doubtful debts, another relating to the inclusion of amounts collected on bad debts for which a deduction had previously been taken, another allowing a deduction for debts that have become bad in the year and a fourth allowing a reserve for debts that have become doubtful in the year. I would point out that with regard to doubtful debts that this provision allows a reasonable amount each year in respect of such debts. It is also required however that the same amount be taken in in the next year so each year you have a system of determining what reserve there should be for doubtful debts and adjusting it by bringing that in the next year.

Mr. MACDONNELL: That is what I thought it was, but let me read this:

The amount deducted as a reserve for doubtful debts in computing the taxpayer's income for the immediately preceding year.

Take a simple case. Supposing it was \$25,000, that is what you deduct. Then, the whole of that \$25,000 is put in in your income for the next year. Then also, in the next year you put in anything which you have received. Now then, supposing you deducted that \$25,000 in the one year and then you received the whole of it?

Hon. Mr. ABBOTT: But the key words here are, "for the immediately preceding year".

Mr. GAVSIE: Would you look at the bottom of page 7 and the top of page 8 which provide for a reserve for doubtful debts and bad debts. Each year, you set up a reserve for that year, so that next year you have to take that into income to the extent you have not used it.

Mr. JACKETT: I think what is bothering Mr. Macdonnell is the fact we have drawn a distinction between a reserve for doubtful debts and the actual treatment of the debts which are shown to have become bad.

Mr. MACDONNELL: I imagine you are right, but would you explain to me how paragraphs (e) and (f) work? Let me take my simple illustration. Last year I deducted \$25,000 as a reserve for doubtful debts. Now, that is added to your income for this year. That is right? That surely could only be added to the income for this year.

Mr. JACKETT: No. It is added on the basis that this year you will be allowed the full amount of your reserve and the deduction, so that there is no change in your situation. Under this section the amount that is deducted will be equivalent.

Hon. Mr. ABBOTT: Is it fair to put it this way: You add up the gross income for 1948. The income would include the reserve which you set up the preceding year for all debts, and any bad debt collections during the year. From that gross income before computing your tax you then deduct the actual bad debts and reserve for doubtful debts which you are providing for that current year, 1948. You are including in your gross income for 1948, your doubtful debt reserve set up for 1947, and the amount of bad debts which you actually collected in 1948; and then you would deduct from the resulting figure the reserve that you were setting up for 1948 and the actual bad debts in 1948.

Mr. MACDONNELL: That is all right, but there is no reference to that in the section.

Hon. Mr. ABBOTT: The act actually does that very thing.

Mr. MACDONNELL: Your explanation seems satisfactory but there is no reference to that in the act as it is.

Hon. Mr. ABBOTT: But you get your deductions allowed in computing income in section 11.

Mr. MACDONNELL: It seems to me that the draughtsmanship is faulty.

Hon. Mr. ABBOTT: I would not think so because under section 6, we set up the specific amounts to be included in computing income. In section 11, we set out the deductions which are allowed in computing income. The real purpose of the act is that in making up your income tax return you can look at section 6, and see what you must include and then you look at section 11, and some of the other sections to see what you can subtract in order to arrive at your net.

Mr. MACDONNELL: What objection would there be to putting a reference to section 11, in this section 6?

Mr. FULTON: Mr. Chairman, it is very difficult for us to hear.

Mr. GAVSIE: If you look at section 11, on page 7, you will find that it states, "notwithstanding any other provision in this Division, the following amounts may, subject to subsections (2) and (3) of section 12, be deducted in computing the income of a taxpayer for a taxation year."

Mr. MACDONNELL: The only reason I made that suggestion was for convenience in the reading of this section.

Mr. GAVSIE: We tried to see if we could do that, but we found that it was quite hopeless.

Mr. HACKETT: Would it be a reasonable thing to make a reference in this section to the section dealing with the deductions? I am thinking of the person who is trying to use the act.

Mr. GAVSIE: I think it is fairly clear if you bear in mind the definition of income and taxable income. You notice section 11, says, "in computing income what you are trying to arrive at is the taxable income."

Mr. MACDONNELL: I do not think you are making it easy or clear for the average person who reads this.

Mr. GAVSIE: Well, it does take a long time to follow it.

Hon. Mr. ABBOTT: The suggestion has been made that there might be a change in the style of drafting the marginal notes, and certainly the consolidation which is published for the use of the taxpayer might put in a marginal note reference to section 11, paragraphs (d) and (e) of subsection (1).

Mr. MACDONNELL: It is bad for the lawyers who act for the other people.

Hon. Mr. ABBOTT: We will have a look at that.

Mr. TIMMINS: With regard to the last paragraph of that particular section, section 6 (j); I wonder if the minister would explain; "amounts received by the taxpayer in the year that were dependent upon use of or production from property whether or not they were instalments of the sale price of the property, but instalments of the sale price of agricultural land shall not be included by virtue of this paragraph." I wonder if he would explain just what is meant by, instalments on the sale price of property?

Mr. GAVSIE: There was a case in about 1928, I think it was, which held that a royalty to be regarded as a royalty or royalty agreement must have been written in the form of a sale; but notwithstanding, that this was a royalty which would not be subject to tax; and that is the purpose of this section, which was included in the Income War Tax Act.

Mr. TIMMINS: Was there curative a little further on?

Mr. GAVSIE: This provides for taxing the amount which is paid as your share of the production, which is really an income item; and while the agreement may be in the form of a sale there really is the amount you receive by reason of production. It relates very directly to oil wells.

The CHAIRMAN: Is it not an attempt to tax capital?

Mr. GAVSIE: No.

Mr. FULTON: I was wondering if there would not be some danger that you might get a claim under an agreement of sale. It does not say whether or not they were instalments on a sale, of the sale price of the property.

Mr. GAVSIE: The payments are dependent upon the use or production of the property, if it were a straight sale. The payment must be part of the result of the use or production of the property.

Mr. TIMMINS: The section is predicated upon the word "use."

Hon. Mr. ABBOTT: That is correct.

Mr. JACKMAN: So, under section (j), provision is made to take care of instalment payments for the use of property; is that it?

Mr. GAVSIE: It is based on use or production. In other words, you get a percentage that would be regarded as a royalty, notwithstanding that the form of the agreement might be in the form of a sale, except that payment is dependent upon production. It is not an outright price for the transfer of title. It is an amount based upon its use, which is a royalty.

Mr. JACKMAN: In other words, if a person had an idea and sold it for a lump sum it would be a capital charge. If he gets payment by instalment over a period of years—

Mr. GAVSIE: No, based upon use.

Mr. JACKMAN: But suppose the word "use" does not come into the contract at all?

Mr. GAVSIE: If it were just \$100,000 payable \$10,000 a year, then it would not; but if it were \$100,000 and the transfer of title provides for payment of 10 per cent of the gross proceeds a year, then we would regard it as income under this section of the bill.

Mr. JACKMAN: May I call attention to the section dealing with premiums on shares. I suppose this will come to the heart of the income tax and perhaps is not discussible here. If that is your ruling I will not enter upon it; otherwise, I should like to register a protest to taxing the premium on a redeemable bond of $3\frac{1}{2}$ per cent, particularly where the investor has to reinvest his money.

Hon. Mr. ABBOTT: This only relates to shares, it does not relate to bonds. It has been in the law a great many years.

Mr. JACKMAN: Of course, I think you have been wrong a great many years. I do not want to bring in something which will not be friendly at this present moment, but if it is in order I would like to discuss that now.

Hon. Mr. ABBOTT: I cannot accept an amendment to change the law on that, but I can realize it is quite in order to present a protest with respect to the law as it stands.

Mr. JACKMAN: I think the government is wrong in putting a tax of this kind on.

Mr. JAENICKE: This section had nothing whatever to do with the basic herd principle at all?

Hon. Mr. ABBOTT: None whatever. There is nothing in the law about the basic herd, that is a matter of accounting, I understand. In the department they have special men who work on it.

Mr. FULTON: I was going to ask about that under section 10. Would it be necessary to make any change in the law to provide for the basic herd principle?

Hon. Mr. ABBOTT: It is not necessary to do it at all, I am informed; the basic herd matter has not been worked out. It is a question of what is capital and what is income. I am told that the Department of National Revenue is now working out regulations relating to the basic herd principle applied to most livestock with the exception of poultry.

The CHAIRMAN: The acoustics of this room are so bad, I have inquired whether 429 is available and I find that it is. If you wish to adjourn for five minutes we can move up to room 429.

An Hon. MEMBER: Lets finish the afternoon sitting here.

The CHAIRMAN: Very well, then we will meet in room 429 this evening. I see members at the far end of the table carrying on conversations and reading newspapers and they certainly would not be doing that if they could hear.

Section 7:

Mr. TIMMINS: What about the second line there where it says, "can reasonably be regarded as being in part a payment of interest". Now, to me that is discretionary law; the department can determine "where it can be reasonably regarded" and if it was not the discretion of the minister it must be of someone else in the department; and, is there any appeal from a decision?

Hon. Mr. ABBOTT: That would be a question of fact, Mr. Chairman, in the final analysis for determination by the Income Tax Appeal Board or the courts.

Mr. FULTON: But what about the question of discretion?

Hon. Mr. ABBOTT: There is no discretion at all here, you will appreciate; no administrative discretion in here at all.

Mr. FULTON: I would just like to ask the minister whether in this section 7, provision is made for this basic herd principle, and if the farmer could ask for and be assured that part of his investment in that herd would be considered as capital and part of it as income?

Hon. Mr. ABBOTT: The basis for the ruling with respect to the basic herd principle will be found in section 4, where it says; "subject to the provisions of this Part, income for a taxation year from a business or property is the profit therefrom for the year." The question as to what the profit for each year is, is a question of fact and of law. Under the basic herd principle that is sound, and apparently it has been working out; the terms of the method by which income for the year is ascertained in the case of these livestock operations are a matter of determining the profit for the year.

Mr. MACDONNELL: The minister has said one thing which puzzles me. He said, as I understood him, that this decision is section 7 was in no sense an exercise of administrative discretion?

Hon. Mr. ABBOTT: That is right.

Mr. MACDONNELL: I find it hard to understand how it could be done in any other way. How could a court of law, for example, undertake to go beyond let us say a series of debentures—I take it that is one of the things that is in mind, as mentioned in the House the other day.

Hon. Mr. ABBOTT: Well, it relates more particularly to lump sum payment arrangements.

Mr. MACDONNELL: But someone apparently has to exercise this discretion, there seems basically to be a matter of discretion involved here. By whom would it be applied?

Hon. Mr. ABBOTT: In the first instance the income tax assessor will have to make up his mind whether the transaction in question can reasonably be regarded as all or part in payment of interest. He decides it is and he makes up his assessment accordingly. The taxpayer says it is not. He goes before the Income Tax Appeal Board and the facts in connection with the transactions are presented to the Income Tax Appeal Board, just as to the assessor; and the Income Tax Appeal Board makes its findings. If the taxpayer is not satisfied with the findings of the board he goes to the court, and it is part of the function of the court to determine both questions of fact and of law.

Mr. JACKMAN: In other words, the minister's discretion is not final.

Mr. MACDONNELL: All I can say is, there is administrative discretion, and you might also say—

Hon. Mr. ABBOTT: It is not administrative discretion, it is an appreciation and judgment of a variety of facts; and it is not final, a court reviews that decision.

Mr. HARKNESS: And there is a question I wanted to ask in connection with this section 7, and that has to do with whether it relates to sales of land such as are common in the west especially back around the 30's under which instead of a sum certain being laid down payment was to be made on the basis of so many thousands of bushels of wheat over ten years we will say, or of some equivalent crop for ten year.

Hon. Mr. ABBOTT: Wouldn't that come under (j)?

Mr. HARKNESS: Then I take it this section will not be applicable?

Hon. Mr. ABBOTT: Would not be applicable, that is right.

Mr. HARKNESS: The point I wanted to make clear was whether some of that payment would be considered income or not.

Hon. Mr. ABBOTT: That would be a question of fact which, as I was just saying to Mr. Macdonnell, will be determined in the first instance by the taxing authorities, and if the taxpayer were not satisfied with their findings he would appeal to the Income Tax Appeal Board or the courts.

Mr. HARKNESS: What has been the practice in regard to that matter? You must have had plenty of cases on it I should think?

Hon. Mr. ABBOTT: In cases of that kind, where a man makes his payments in bushels of wheat, that has been allowed in the past as payment on account of capital obligation.

Mr. HARKNESS: What was the situation where the payment was expressed as a percentage of the crop?

Hon. Mr. ABBOTT: It would be the same thing there, I am informed. That has been administrative practice.

Mr. HARKNESS: In other words, there are no income charges?

Hon. Mr. ABBOTT: That is right.

Mr. JAENICKE: I presume that refers to a contract which has no interest element?

Hon. Mr. ABBOTT: In part that is true.

Mr. JAENICKE: It might well be reasonable not to put in any interest clause.

Hon. Mr. ABBOTT: I suppose that is right, Mr. Jaenicke. If that were established then there would not be any income. I think the general assumption is that a man does not voluntarily do without revenue and does not make any act of that nature unless he has good reason for doing it, and that in most cases a man takes a lump sum payment rather than the payment of capital sums over a period of years without interest. Of course, the tax is arrived at on the basis of the interest return.

Mr. JAENICKE: But not in all cases.

Hon. Mr. ABBOTT: No, of course it would not be in all cases. It would depend on the particular case.

Mr. HARKNESS: The type of contract to which I was referring was one under which the vendor really was sharing with the purchaser what you might call the vagaries of the weather and changes in the market price of grain and so forth.

Hon. Mr. ABBOTT: Yes.

Mr. GAVSIE: If it was part of the contract agreement that you got something in addition to the purchase price, if part of that was an interest element, that part would be regarded as income. It is pretty hard to answer generally without having some practical agreement before you. Obviously, if the agreement provided for the payment of interest, the interest would be taxable.

Mr. HARKNESS: But these agreements do not provide for the payment of interest, they provide for the payment of so much money down and the remainder of the payment in the form of let us say a one-third share in the crop for ten years, or so many thousands of bushels of wheat over ten years, whatever it might be.

Hon. Mr. ABBOTT: The purpose of this act as you know, Mr. Harkness, is that if a man is really in receipt of income and it is above the exemption limits he should pay taxes on it, and he should not be entitled to avoid the payment of taxes by cloaking the transaction in some other guise. That is the purpose of this section.

Mr. HARKNESS: But what I was trying to get at is, how does this section apply to that type of transaction?

Hon. Mr. ABBOTT: Well, as Mr. Gavsie says, you would have to look at each individual transaction to determine whether there is income. Under the law that is a question of fact.

The CHAIRMAN: Section 8.

Mr. TIMMINS: On section 8, subsection 2, I would like to ask Mr. Gavsie about this business of taxing a loan to a shareholder except in certain circumstances; is that new?

Hon. Mr. ABBOTT: No, that is not new, Mr. Timmins. This has been in the act for a good many years and is to prevent concealed dividends. The companies can avoid the payment of personal income tax on the part of their shareholders by making them loans instead of declaring dividends. That has been in the act for a good many years. Some of the exceptions are new.

Mr. MACDONNELL: I want to ask a question with regard to subsection (a) of section (2). It says, "in the ordinary course of its business and the lending of money was part of its ordinary business". In other words, you are saying that that can only be done by banks, insurance companies and loan and trust companies?

Hon. Mr. ABBOTT: That is right.

Mr. MACDONNELL: That seems to be a very narrow interpretation, where a bona fide transaction is carried out; supposing one corporation made a loan to another and it was bona fide. I am not going against what the Minister said, but the language must not be clear; and I am certain that the Income Tax Department will be wise enough to find out whether it is a bona fide transaction. It seems to me a mistake to cut out what might be a real bona fide ordinary transaction.

Hon. Mr. ABBOTT: Well, it is not very significant in the case of corporations, because as you know, Mr. Macdonnell, they declare dividends. The point I was making is that a corporation can declare a bona fide dividend to another corporation which is its shareholder without incurring any tax liability.

Mr. MACDONNELL: But that might not be what they want to do. Their transaction might be different. Why have you got to force them to do that? I mean, in a bona fide case.

Hon. Mr. ABBOTT: Supposing we let that section stand for a little time so that I can get more information for you on it.

Mr. FULTON: Just before you let it stand, should we not leave the words "and" or "or" between the subsections?

Mr. JACKETT: I think the drafting rules that have been pretty well adopted throughout this country as a result of the Uniformity of Laws Conference require that where you have a series like this you put the words "and" or "or" after the second last paragraph and not after each paragraph.

Hon. Mr. ABBOTT: You might leave section 8, to stand, Mr. Chairman, until I have an opportunity of considering Mr. Macdonnell's point.

Mr. JACKMAN: While you are considering redrafting section 8, may I suggest a point which would I think be a question which possibly has not yet been considered. Let us suppose in the case of two corporations one of which wants to borrow let us say \$25,000 from the other, and the borrower happens to be a shareholder with the ownership held by the first company. Technically the second company would be taxable under this section. I think it might be better if consideration were given to inserting "when a corporation has anticipated or made a loan to its shareholders other than the corporation." I submit that in a case such as I have cited there would be no question of an evasion of tax payments.

Hon. Mr. ABBOTT: Suppose we consider that suggestion and let the whole section stand.

The CHAIRMAN: Section 9, winding up:

Mr. MACDONNELL: Could we have a word about section 9? I am not sure that I understand it correctly.

Hon. Mr. ABBOTT: Mr. Jackett will perhaps deal with that.

Mr. JACKETT: 9(1) is a revision of 19 (1) of the present act, the Income War Tax Act; and deals with dividends which have been declared by the corporation on winding up where the corporation has undistributed income.

Mr. JACKMAN: What about surplus?

Mr. JACKETT: That is not in that.

Mr. JACKMAN: Undistributed earned surplus, not undistributed income.

Mr. JACKETT: The expression we have been using is "undistributed income".

Mr. JACKMAN: Is that the sum, earned surplus, on which taxes are paid?

Mr. JACKETT: Income is what has been earned. Undistributed income would be generally speaking that portion of income that is earned which has not been distributed. I did not think there would be any difference.

The CHAIRMAN: Mr. Jackman's question as I understood it was, is there any distinction drawn between income which has not yet been taxed and earned income on which tax has already been paid?

Mr. JACKMAN: I am not trying to distinguish as between income which has not yet been taxed and income which has already paid the tax. I want to know if upon winding up the only income which will be taxed is earned income that is taxed on distribution to the shareholders?

Hon. Mr. ABBOTT: That is what the section says; it says, "undistributed income earned since the beginning of 1917."

Mr. JACKMAN: Isn't that earned surplus that is used in there quite general?

Mr. JACKETT: Undistributed income, as referred to in subsection (2) of this section.

Mr. JACKMAN: Under the interpretation section what constitutes income in this case?

Mr. JACKETT: The whole first part of this act is a series of rules to determine what income in various circumstances shall be. There is no definition of income as such.

Hon. Mr. ABBOTT: And there never has been in my experience.

Mr. JACKMAN: But my point is this, on the winding up of a company, the shareholders are taxed on the distributed earned surplus but they are not taxed on the distribution of any other assets of the company; is that so?

Mr. GAVSIE: That is right. You have in that the element of capital.

Mr. JACKMAN: Yes, but suppose there is a sale of the capital assets away above their value, that would not be subject to tax?

Hon. Mr. ABBOTT: That is not income.

The CHAIRMAN: The physical assets might have been written down by depreciation to away below their market value, and that is not taxable.

Mr. FULTON: What is the difference between 9(1) (a) and 9(1) (b)?

Mr. JACKETT: That is to make sure that you do not tax them over the amount they receive, or more than the portion of the undistributed income he is receiving.

Mr. FULTON: (a) says the tax shall be of the amount of value of the funds or property so distributed or appropriated to him; and (b) says, "the portion of aforesaid undistributed income that was or would have been payable to him on the winding up of the business at that time." One is the same as the other.

Mr. JACKETT: No, because he is receiving all the property of the corporation which has to be distributed to the shareholders upon winding-up

including other property besides undistributed income. We want to make sure that we do not tax him on more than his part of the undistributed income, and no more than what he actually receives of that.

Mr. MACDONNELL: The words, "that was or would have been payable to him on the winding-up". What is the significance of them? That is in (b) at the top of page 5.

Mr. JACKETT: If you go back to the introductory words of section 9, you will see it refers to any distribution on winding up—"been distributed or otherwise appropriated in any manner whatsoever to or for the benefit of one or more of its shareholders on the winding up." The section, you see, refers to the actual distribution on winding up. "Or what would have been" refers to the case where there was no actual distribution, proper distribution, of property of the corporation to the shareholders.

Mr. MACDONNELL: Such as—?

Mr. JACKETT: I do not know whether I can give an example. I suppose one case would be where a corporation ceased carrying on business and the shareholders just took the property according to some arrangement without going through the proper winding up and distribution of assets.

Mr. FULTON: In other words, it is designed to catch a subterfuge.

Mr. JACKETT: That is right.

Mr. BREITHAUP: Why does it go back to 1917?

Hon. Mr. ABBOTT: That is when the Income Tax Act came into force.

Mr. BREITHAUP: That is too far back.

Mr. BENIDICKSON: Could you explain subsection 7 and 8 which are apparently new?

Mr. JACKETT: Subsection (8) has been put in to correct a situation which arises in the present Act where the minister requires distribution because the undistributed income is too large. A dividend is deemed to have been declared; the shareholders are then taxable. Then, if the corporation in fact declares an actual dividend, technically the shareholders would be taxable a second time.

The CHAIRMAN: Section 9 is carried, then?

Carried.

Section 10?

Carried.

Mr. FULTON: I wanted to raise a question with regard to the re-insertion of a provision concerning the amount paid for life insurance premiums. Would that be more appropriate under section 10 or section 11?

Hon. Mr. ABBOTT: I think that would be a deduction from income.

Mr. FULTON: It would come under section 11, then?

Hon. Mr. ABBOTT: Under section 11, if what you suggest is the deduction of life insurance premiums as an expense of carrying on business or of living.

Another section would be section 26.

Mr. MACDONNELL: May I have permission to ask one more question in connection with section 9, subsection (6)? I should like to ask this question; it says,

Where the minister has notified a corporation by registered letter that, in his opinion, the undistributed income of the corporation exceeds what is reasonably required for the purposes of the business by an amount specified therein, a dividend equal to the amount specified in the notice shall be deemed to have been received by its shareholders on the day on which the registered letter was sent—

Oh, I think I am answered. That merely affects the shareholders; it does not affect—

Hon. Mr. ABBOTT: That is the section in which a lot of the language is somewhat changed, but it has been in the Act for many years to prevent undue accumulation of earnings which should be distributed as dividends and a tax paid on them.

Mr. HACKETT: Are there any instances of its enforcement?

Mr. GAVSIE: It has been tried once or twice.

Hon. Mr. ABBOTT: In the same section, under paragraph (a),

Unless it is established that the undistributed income on hand that day did not exceed what was reasonably required—

That is a question for determination by the board or the courts.

Mr. HACKETT: The minister remembers the amendment of 1929, was it, where everybody re-incorporated and distributed the surplus. When was that, 1929 or 1930?

Hon. Mr. ABBOTT: I do not remember exactly.

Mr. HACKETT: 1930; it must have been after that.

Hon. Mr. ABBOTT: That is true. The bringing of the income tax law up to date over the last 25 or 30 years has been a process of plugging up holes here and there as means were found of avoiding some of its provisions.

The CHAIRMAN: Section 11.

Mr. JAENICKE: Subsection (2) of section 10, does that mean the provincial legislature fixes the allowance?

Hon. Mr. ABBOTT: Oh, yes, that is the M.L.A. expense allowance. The legislature fixes that. If the legislature determines that a payment made to one of its members is in lieu of expenses within the limits of this provision that is tax exempt income in the same way as the \$2,000 received by private members of parliament and is exempted from taxation. The word "private" should be underlined. There is a widespread belief that cabinet ministers get that extra amount tax exempt, but they do not.

Mr. BRADETTE: Section 11, the minister stated would be allowed—

Hon. Mr. ABBOTT: I am going to allow that section 11 to stand, if I may. I have had some representations on section 11 referring to depletion.

Mr. BRADETTE: If you would allow me, I should like to place before the committee an amendment which could be discussed when the section comes before the committee again. It will read as follows—

Hon. Mr. ABBOTT: I do not want to get into a discussion on amendments here if it can be avoided because I have had a great many representations within the last week or so in connection with this section. I should like to have an opportunity of considering those and seeing what could be done. However, if you feel you want to outline a suggested amendment—

Mr. BRADETTE: I think the best way would be for me to hand it over to you.

Hon. Mr. ABBOTT: I was only suggesting that section 11 (a) and (b) be allowed to stand, since those clauses relate to the matters we are considering, namely the depletion allowance. I thought perhaps we could go on with the rest of the section.

Mr. BRADETTE: I think the amendment would fall in line with some of the representations which have already been made.

Hon. Mr. ABBOTT: I think the amendment I have to offer will meet these representations.

Mr. BRADETTE: I will hand over my amendment to you.

Hon. Mr. ABBOTT: I will be very glad to have it. I have some other suggested amendments which I would like to consider.

Mr. FULTON: Before these two subsections stand, could the minister give an indication as to when he expects to be able to come forward with his own suggestion?

Hon. Mr. ABBOTT: I think tomorrow, perhaps even this evening. I have been so engaged in other matters I have not had an opportunity of fully considering these representations and discussing them with my advisers. I hope to be able to do that this evening and I hope tomorrow I can indicate what amendment, if any, I can accept to this section.

Mr. FULTON: I only ask that because I think there are a number of people waiting here to find out whether or not they are to make representations on that section.

Hon. Mr. ABBOTT: It relates particularly to mines and timber lands, I think.

(At this point Mr. Rinfret, the vice chairman, assumed the chair).

Mr. HACKETT: My query, Mr. Chairman, is a little different. I referred to it the other day in the House. I understand depletion is allowed the Canadian taxpayer on oil bearing properties situated in Canada—I think it is $33\frac{1}{3}$ per cent of the amount received. However, the same taxpayer receiving royalties from a property situate outside of Canada is entitled to a deduction of 10 per cent for depletion. I do not understand the disparity and I was anxious to know if there was any intention of eradicating it from the present Act.

Hon. Mr. ABBOTT: That $33\frac{1}{3}$ per cent is to the company operating the oil well, not to the shareholder.

An Hon. MEMBER: How much to the shareholder?

Hon. Mr. ABBOTT: Twenty per cent under our law. Your suggestion, Mr. Hackett, is that in our case it is not adequate?

Mr. HACKETT: I do not know why one rate should apply to a Canadian company and another rate to an American company for instance.

Hon. Mr. ABBOTT: These so-called depletion rates, as you will appreciate, are not perhaps true depletion in the fullest sense. They continue on and on, irrespective of the cost of the property. This applies to oil wells, to mines, gas wells and so on. Depletion, I would think, in the true sense is getting back the capital cost you have incurred in securing a natural resource.

Mr. HACKETT: That is a question which I understand the minister will debate—

Hon. Mr. ABBOTT: The question I have to consider is this—

Mr. HACKETT: I am considering now the reason for the disparity, the different treatment accorded a royalty coming from a Canadian mine and that accorded a royalty coming from an American mine.

Hon. Mr. ABBOTT: In Canada, of course, as I said a moment ago, we have two depletion allowances in companies of this type. There is a depletion allowance allowed the oil company or the mine on so much of its income. Then, the shareholder receives a depletion allowance on the dividend which he receives.

Mr. HACKETT: Yes, of $33\frac{1}{3}$ per cent.

Hon. Mr. ABBOTT: The shareholder receives 20 per cent. All those who have shares in mining corporations and who receive dividends from those corporations include only 80 per cent of what they receive is taxable income. The other 20 per cent is considered depletion. In the case of mines, there is no difference between the depletion rate on a Canadian mine and an American mine. In the case of oil wells, the reason there is a higher rate allowed on Canadian oil wells than foreign oil wells is due to the fact we have some

control over the rates of depletion allowed the company or the operator of the well in Canada, but we have not any control over the outside operator.

Mr. HACKETT: They have control in the United States and they allow a rate of depletion there which is higher than the one we allow here and which in turn, is lower than the one we allow to our Canadian companies.

Hon. Mr. ABBOTT: Probably the rate of depletion which they allow the operator of the oil well in the United States is somewhat higher than ours, although the basis of depletion under the United States law is somewhat different than under our law.

Mr. HACKETT: There will be an opportunity of discussing this further tomorrow?

Hon. Mr. ABBOTT: There will be an opportunity of discussing it, Mr. Hackett. This whole question of depletion rates and percentage rates is under consideration now and will be the subject of regulations which will be published under the appropriate section. Now, those are just a matter of ministerial discretion, as you know. There are standard rates fixed.

Mr. HACKETT: I know the minister is anxious to get on, and I do not wish to hold up the committee, but I should like to feel a further discussion of this point is possible.

Hon. Mr. ABBOTT: We could have that tomorrow or whenever we come back to the section.

(Mr. Cleaver resumed the chair).

The CHAIRMAN: Mr. Fulton, if I remember correctly you wished to speak to a matter under this section with regard to life insurance.

Mr. FULTON: It was suggested it might come under section 26, but it occurs to me it might more properly be suggested along with consideration of subsection (g) which allows for a deduction up to \$900 to a taxpayer who pays into a superannuation or pension fund.

Hon. Mr. ABBOTT: It is quite proper to make a suggestion here.

Mr. FULTON: I understand there was in the Income War Tax Act a provision allowing certain deductions for life insurance premiums paid by the taxpayer; is that not the case?

The CHAIRMAN: Only from compulsory savings.

Hon. Mr. ABBOTT: Perhaps Dr. Eaton could answer that.

Mr. EATON: What you have in mind arose in war-time when part of the tax was refundable; it was, in effect, a compulsory savings. Under this provision a person who had insurance could offset his insurance premiums against the compulsory savings and thereby reduce his liability to pay this refundable portion of the tax.

Mr. FULTON: Taxpayers are allowed, and I think quite rightly, to deduct an amount up to \$900 paid into an approved superannuation or pension fund. This covers the case of the taxpayer for whom provision is made in part by his employer, by the government or private industry, but no provision is made for the independent taxpayer who has to provide for his own superannuation or retirement. He has to pay tax on his full income as well as provide for his own retirement. He is, thus, harder hit than an employee of the government or a concern which has a superannuation plan.

Why could not or why should not some provision be made up to \$900 for the taxpayer who pays premiums on life insurance or an annuity policy?

Mr. EATON: There is a provision in the law, sir, dealing with annuity payments which assists such people. Following the Ives Commission report the law was changed in this respect. Previous to that time, annuity payments

were taxed in full. The law was changed following the recommendation of the Ives Commission so that the capital element of an annuity payment was declared to be non-taxable and the tax applied only to the interest element. Under this system you take the present value of the annuity when it commences and that is deducted from the annual payments according to the life expectancy and the tax applies. The income is only the interest contained in that capital sum.

The CHAIRMAN: That is under Section 11 (i) of the present bill?

Hon. Mr. ABBOTT: The same thing applies to the capital sum which is received as the result of an insurance contract; that is not taxable. With regard to the \$900 exemption here, you can claim it as a deduction when you are earning the income, but the superannuation received is taxable income. The general rule followed now is that you cannot get exemption in both places. If you claim exemption when you make your superannuation contribution, you pay tax on your superannuation benefits when you get them.

Mr. FULTON: I think most insurance policy holders, particularly the smaller income group, would sooner be allowed a deduction from taxation for the premium paid on the policy and take their chances on the amount of the annuity payment received being in the non-taxable group.

Hon. Mr. ABBOTT: It would not be so good for the widow.

Mr. FULTON: The point Dr. Eaton makes is that the capital portion of the annuity payment when received is not subject to income tax. I do not think that answers the point I made that provision is made by which the taxpayer who contributes to a pension or superannuation fund is helped to the extent he gets a deduction from his income for taxation, whereas the taxpayer who has to provide for his own retirement because he is not an employee who can contribute to one of these funds gets no such assistance. As there is a large saving element in the contribution through insurance or annuity policies, I do think the law might well be amended to give some proportion of benefit to that type of taxpayer.

Mr. MACDONNELL: Could I add a word on that point? It seems to me that, psychologically, Mr. Fulton's point is very strong, from the point of view of helping them to help themselves. There is a very strong argument for giving relief at the time the payments are made because I think many people do not cast their minds so far ahead as to think about the end of the time.

If the difficulties to the treasury are not insuperable I would say that, psychologically, the inducement to self-help is eventually greater if the relief can be given at the time the payments are made.

Hon. Mr. ABBOTT: It is arguable, but the position is this; you could apply the \$900 tax exemption to everybody who sees fit to take out life insurance, an additional \$900 exemption across the board to people of all income brackets. The revenue loss would be quite appreciable. In order to be fair, you would have to make the proceeds, the end result of the event, taxable because it would not be equitable to allow a fund to be built up out of tax exempt income and then make the resultant event tax exempt. Life insurance policy holders already have some benefits. The annual dividends are not included in ascertaining the taxable income.

Mr. FULTON: I understand that, in the United Kingdom, there is a provision along the lines I have indicated. Could Dr. Eaton confirm that?

Mr. EATON: Yes, there is a very limited provision whereby a limited amount of the life insurance premiums are recognized by a tax credit.

Mr. MACDONNELL: If the end result is taxable, would that recovery not compensate the treasury? I agree they have to pay a tax one place or another.

Hon. Mr. ABBOTT: I have not gone into the matter on a statistical basis. Obviously, it is a major policy question and I would have to look into it. I would be glad to look into it later.

The CHAIRMAN: I believe we would hear from the widows who were recipients of \$10,000 from their husbands' insurance and who were taxed on \$10,000 of income.

93 Mr. FULTON: So far as the annuity policy is concerned one chiefly has in mind that if the husband dies before the policy matures then, apparently the widow would have to pay taxes on a portion of the policy, at least, if some such plan were adopted. I am thinking of the average person whose policy matures and who retires on it. As Mr. Macdonnell says, I do not think there can be any great objection to regarding part of the proceeds as income and taxing it as income. Many people would be willing to take a chance because they might not be in a taxable bracket.

Hon. Mr. ABBOTT: I would be glad to give further consideration to that.

Mr. JACKMAN: Would Dr. Eaton say whether the end result in the United Kingdom is taxable if there is a small deduction allowed on the premium?

Mr. EATON: Lump sum payments under an insurance contract are not taxable, but if the proceeds are taken in the form of an annuity for life, the full amount is taxable. Life annuities are fully taxable in the United Kingdom. There is no capital element taken out.

Mr. STEWART: It is subject to the ordinary income tax exemptions?

Mr. EATON: The ordinary exemptions, yes.

Mr. JACKMAN: The tax is only on the income element in Canada?

Mr. EATON: Yes, the interest accruing from the time the annuity starts is taxable.

Mr. JACKMAN: Is that income element taxed just after the contract matures in the United Kingdom?

Mr. EATON: Well, all the payments out in a life annuity are taxable. Amounts have gone in and built up that interest which goes out over the period of life. When the annuity starts the full amount is taxable income as it goes out; that is, the accumulation of the capital in there plus the interest would go out in payments once the annuity starts and that is fully taxable income in the United Kingdom.

The CHAIRMAN: Section 11, subsections (a) and (b) stand and the balance of the section is carried?

Hon. Mr. ABBOTT: (2) and (3) are carried.

Mr. FRASER: I should like to ask a question on section 11 before you carry it. I asked a question a few minutes ago regarding travelling allowances for a traveller. What is he allowed per mile, do you know that?

Hon. Mr. ABBOTT: I am just getting the information from the departmental offices. The answer, of course, is that it is the actual expenses which the man incurs. Now, no doubt, the department has established, as a result of experience, what a mileage allowance should be in the case of a salesman who has to operate a car in the selling of life insurance or whatever it might be. I am informed that the general practice is to allow actual expenses up to 7 cents a mile.

Mr. HARKNESS: What is the meaning of 1 (n) on page 9? Is it an amount that may be allowed by regulation?

Hon. Mr. ABBOTT: Perhaps Dr. Eaton could explain it.

Mr. EATON: The whole section generally relates to expenses incurred in earning income. This is a special provision for deduction in respect of taxes on income. Now, ordinarily, taxes on income are not expenses in earning income.

This is a special provision to take care of provincial taxes. It is, in effect, recognizing the priority of the provincial government in this field of natural resources. We take what is left after they get through.

Mr. HARKNESS: That doesn't apply, apparently, on oil and natural gas?

Mr. EATON: No.

Mr. HARKNESS: Why is that?

Mr. EATON: I believe the reason is this, that the provincial governments, so far as we know, take a royalty rather than a tax on the income of gas and oil companies. I do not think there is any provincial tax on the income of oil companies.

Mr. HACKETT: How far does that go? Does it go to the provincial tax on capital, for instance?

Mr. EATON: No. This is the tax on mining, income from mining.

Hon. Mr. ABBOTT: Provincial income tax on mining and logging companies.

Mr. EATON: As distinguished from milling and above-ground operations.

Mr. HACKETT: I asked Mr. Abbott the other day why one should deal with lumber companies and mining companies differently than with wheat-growing companies for instance.

Hon. Mr. ABBOTT: The answer I think I gave you, Mr. Hackett, was that in the case of mines and forests you have a fairly rapidly wasting asset, and in the case of wheat growing you have an annual crop which goes on year after year, just the same as garden produce or anything else; and, as Doctor Eaton has said, you have the wasting of these natural resources. It is a recognition perhaps of the priority of the provinces in these particular fields. Now possibly it should be extended. I do not think it should. But in these two fields of mining and logging the act expressly recognizes that the provinces have a sort of priority to take income tax from that type of asset.

Mr. FULTON: Does it take into account income paid by way of royalties?

Hon. Mr. ABBOTT: Royalties have also been deductible.

Mr. BENIDICKSON: I think there should be some provision in this section for depletion.

Hon. Mr. ABBOTT: This section is merely a relieving section to allow deduction of provincial income tax paid in respect of mining and logging operations.

Mr. HARKNESS: Is it absolutely definite that no tax is collected on oil and gas wells? I have an idea that there is a tax collected on those in some cases, apart from royalties altogether.

Mr. EATON: That could be the case only in the provinces of Ontario and Quebec.

Mr. HACKETT: What about Alberta?

Mr. EATON: They are out of the corporation taxable field under the provincial agreement; but I know of no income tax.

Mr. HARKNESS: What about those gas wells and oil wells in the south of Ontario?

Mr. TIMMINS: In the case of those wells in southern Ontario is there not some sort of an arrangement whereby the tax is collected from a syndicate as a whole and then you do not have to show it in your income? I have received notices from the company saying the tax has been paid by the syndicate by an arrangement with the department; therefore, do not include it in your income tax.

Mr. GAVSIE: I think you were thinking of the shareholder.

Mr. TIMMINS: Yes.

Mr. GAVSIE: I mean, of the corporation.

Mr. TIMMINS: Yes.

Mr. GAVSIE: It is on the record of the corporation itself, and it comes under a provision allowing the corporation to deduct it from income. It is allowed to the corporation.

96 Mr. BRADETTE: I was interested in the statement made by Mr. Hackett about wheat-growing companies. Of course, in a case of that kind you could not say depletion, you would have to use the word "exhaustion". You have the same with our forests. For instance, in Ontario we have had a study made by the provincial government and what is known as the Kennedy report, which shows clearly that there has been a terrific amount of waste and exploitation of our forest wealth; and this is a matter to which even the federal government is giving close and serious attention. It seems to me that a distinction must be made between those assets which are clearly exhaustible and those which are merely depleted. A natural resource like our forests, as is shown by the Kennedy report, can be and have been subject to a great amount of wastage and they are becoming exhausted. I know that is the case up in northern Ontario and I believe that is what you have in mind, the difference between depletion and exhaustion. Let us take the case of mining. We have a lot of mines up in my section of the country. We speak of development. As a matter of fact, when a mine is fully developed it is really exhausted. It may take a hundred or a hundred and fifty years for a mine probably to be fully developed, and by the end of that time it is completely exhausted. The same thing does not apply to our forest industry or to our wheat-growing industry. They are on an entirely different basis.

Mr. HARKNESS: One industry which is subject to serious depletion if not exhaustion is this oil and gas business. I was just wondering if you would have any objection to adding oil and gas wells to that section.

Hon. Mr. ABBOTT: The position is this, that this is to relieve the taxpayers in the province from provincial income taxes. Now, there are not any today, so far as we know, in Quebec and Ontario, and they are the only provinces affected at the moment. In the offers which were made by the federal government to the provinces, mining and logging were specifically referred to. I refer to the offer of Mr. Ilsley made early in July of 1946, and this is to make sure that that is lived up to, and I would not care to extend that without in any case giving it some further consideration. But I do not think from the information I have that there is at the moment any practical advantage or disadvantage to extending it to oil and gas wells.

Mr. HARKNESS: The point I was thinking of was that in future there might readily be. I was just asking if there was any undertaking to do those two things.

Hon. Mr. ABBOTT: We should never try to see too far into the future.

Mr. MACDONNELL: But you have to be fair to the country.

Mr. HARKNESS: The point I wanted to be clear on was whether this was provided for when you were dealing with the provinces?

Hon. Mr. ABBOTT: One objection to doing that would be this. We have never allowed any provincial income tax as deduction from income before completing our own tax. Now, we are going to give special recognition to logging and mining and allow them to be deducted, and it was a concession. I know that some people may think perhaps that is the wrong word, but it was a concession in the case of these two operations. We were leaving that field free to the provinces and we were taxing what was left. Now, it is possible that consideration should be given to oil and gas wells, but at the moment it seems to me it has no practical significance.

The CHAIRMAN: Shall section 12 carry?

Hon. Mr. ABBOTT: Now, we are standing, are we, subsections (a) and (b) and sections 2 and 3?

The CHAIRMAN: Correct.

Mr. JACKMAN: Is there anything in subsection 5 of section 11? What is it all about, subsection 5? Is that the aftermath of the war?

Mr. GAVSIE: It relates to special depreciation or accelerated depreciation and it is in the present act. This is merely to carry it forward.

Mr. MACDONNELL: May I ask about subsection 3 of section 1: "an outlay or expense to the extent that it may reasonably be regarded as having been made or incurred for the purpose of gaining or producing exempt income—"

Hon. Mr. ABBOTT: Perhaps I had better ask the officials to explain that.

Mr. GAVSIE: Primarily it relates to dividend income, that is dividends from one corporation to another. This deals with tax exempt income against which expenses should not be allowed because what is earned has already been taxed; therefore, the expense of earnings should not be allowed.

Mr. MACDONNELL: How does that affect an investment trust?

Mr. JACKMAN: Adversely.

Mr. GAVSIE: They are exempt. There is no question of whether their expenses are allowed for tax purposes. That would not arise.

Mr. FULTON: I do not know whether there are any witnesses here who could give us information in connection with subsection 1 (b). I do not know whether you have anyone here from National Revenue or not, have you?

Hon. Mr. ABBOTT: Mr. Gavsie is one of the senior officials of National Revenue. We have a lot of others as well. We will see if we can get somebody to provide the answer for you.

Mr. HACKETT: And they are eminent officials.

Mr. MACDONNELL: We are properly impressed.

Mr. FULTON: What I want to refer to is the regulations for the implementation of this section. It is provided there that should there be a loss in regard to owing a debt or disease or anything else then no deduction is allowed. You have to set down the income on which you have to pay taxes. So far no provision has ever been worked out to allow depreciation as such on let us say a beef herd, so that the farmer then gets treatment similar to that accorded a businessman who owns a factory where there is depreciation allowed. Supposing a businessman's factory is burned. He has already had some compensation by way of depreciation allowance in the past, but if the farmer's beef herd is reduced by disease he has no compensation by way of depreciation allowance on his herd. Now, the basic herd principle is established in that a portion of your herd is capital; and I would ask is that that second directive which at the present time says if a herd is depleted on account of disease or death or some other calamity he can only build it up again out of income, that that be changed and that he be allowed to restore his herd to the amount of the basic herd, to the original amount, without paying income tax on the increase?

Mr. GAVSIE: Would you leave that until this evening?

Hon. Mr. ABBOTT: Could we stand that one, Mr. Fulton, and we will get something on it for you.

The CHAIRMAN: What subsection would you like?

Mr. FULTON: Section 12, clause 1, subsection (b).

The CHAIRMAN: Right. Shall the balance of section 12, carry?

Mr. MACDONNELL: No. Subsection (b), "the annual value of property except rent for property leased by the taxpayer for use in his business." What I want to ask is this. If a businessman rented the property and was paying

an amount which was a mixture of rent and amortization of the building, would this mean that anything that he paid except what is returned actually is rent is not included? Have I made my point clear?

The CHAIRMAN: The interest would be included, the interest element of the amortization.

Mr. MACDONNELL: But supposing he makes payments.

Hon. Mr. ABBOTT: We might ask Doctor Eaton to explain that.

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Mr. EATON: The main purpose of this is to provide that you cannot charge rent for a property which you own yourself, but you can charge and take a deduction for the amount that you actually pay as rent to somebody else.

The CHAIRMAN: And other interest which you pay is blended payments.

Mr. EATON: That is right.

Mr. MACDONNELL: Perhaps I read this wrong. Would this not include the property of which the taxpayer was the lessee?

Hon. Mr. ABBOTT: He is allowed to deduct from his gross income rent for property which he leases for use in his business as a lessee, but when he owns his own store he cannot make any deduction from income for the annual value of the store.

Mr. HACKETT: But he can for the interest on the mortgage?

Hon. Mr. ABBOTT: Yes, exactly, and he can charge depreciation, too.

Mr. MACDONNELL: Take the opposite case. There may be nothing in this, and if there is not we will pass it. Suppose he is leasing premises for a period and making an annual payment which is partly rent and partly payment on a building constructed for his use on those premises. It is a mixed payment, but it is an annual payment he has to make. Will that be inquired into, and will he be allowed to deduct only that part of it which is rent even though at the end of the time he has no asset left?

Mr. JACKETT: As far as this provision is concerned all it does is to prohibit deduction in respect of the annual value of a property. Certainly he would get the portion of that payment that was rent, and whether he got the balance of it would depend upon whether it was expenses which are properly allowable either under the ordinary principles of computing profit or under some special branch.

Mr. MACDONNELL: This says no deduction shall be made in respect of the annual value of property except rent.

Mr. JACKETT: Surely the annual value of property relates not to actual disbursements but to what the property is worth to the owner of it.

Mr. MACDONNELL: Yes, that seems a fair statement, but nevertheless as this is worded—and again I am taking it as applicable for the moment to the case of a lessee—it seems to me this says that he should not be allowed to deduct the annual value of the property which in the case that I have outlined would be a mixed payment. He can only deduct the rent.

Mr. JACKETT: The payment you suggest is not the annual value of the property. It is the actual disbursement made by the tenant.

Mr. MACDONNELL: Yes, but I think under a strict examination of it it might be argued it is not all rent because a part of it is a payment—

The CHAIRMAN: As I take it your question, Mr. Macdonnell, is directed at a firm which is buying a property and amortizing the payments over a period of years.

Mr. HACKETT: Let me see if I can help. "A" leases a property for ten years and he makes improvements on the property which cost him \$25,000. His lease is for ten years. At the end of the lease the improvements will be there. I think what Mr. Macdonnell wants to ask is if he can write off as depreciation \$2,500 a year over the ten years so that the capital he put into that will be written off. I know there is the question of insurance, that a man can insure these improvements he has made, and the insurance comes down each year as his interest in that capital asset vanishes.

Mr. MACDONNELL: Actually my question was a little different although I think the principle is the same. What I really meant was not where a man improved the property himself but where it was improved for him, where a building was put up and he pays so much each year, part to cover the cost of the building and part for rent, and at the end of the time he has nothing left.

Mr. GAVSIE: Does he not end up with ownership of the building?

Hon. Mr. ABBOTT: That is straight rent. The recipient of the rent is entitled to take from his gross rents depreciation on the building that he has rented to his tenant. In the case you are suggesting, Mr. Macdonnell, is it not this, that a man is paying over a period of ten years let us say \$5,000 a year for a store property and—

Mr. MACDONNELL: Let us make \$3,500 of that referable to rent and \$1,500 is the payment off on account of a building which has been erected on it.

Hon. Mr. ABBOTT: He is still paying for the use of that building, and it is all rent. It is straight rent in the case you give.

Mr. MACDONNELL: Then if it is I am answered.

Hon. Mr. ABBOTT: It is straight rent, and the owner of the building fixes the rent at an amount which will return him the cost of his building in a certain period of time and give him a return on his investment in the meantime. As I understand it that is a perfectly proper deduction as an expense of doing business.

Mr. JACKETT: All he is getting is the use of the property.

Hon. Mr. ABBOTT: And while he is paying rent for it in the case you give he is just getting the use of the property. He gets no ownership or anything else.

Mr. HACKETT: In the case I submitted is he entitled to deduct \$2,500 a year in excess of the rental he pays?

Mr. JACKETT: That would come under—

The CHAIRMAN: For depreciation on improvements he has made?

Mr. HACKETT: Put it that way or as the minister has put it. I do not care which. If he treats the initial \$2,500 that went into improvement as rental then he is paying \$10,000 a year plus a portion of the capital investment, and he is entitled to deduct, let us say, one-tenth of the \$25,000 each year from the cost of doing business and add it to the actual rental he pays.

Mr. JACKETT: Would that not be capital cost of the lease-hold interest which should be allowed under section 11 (1) (a)?

Mr. HACKETT: We are not talking in quite the same terms.

Mr. GAVSIE: In the majority of cases if they were really improvements for the benefit of the tenant, made by the tenant, we would allow the tenant to write them off.

Mr. HACKETT: Treat it as the minister suggests as rent.

Mr. GAVSIE: He would depreciate it over the term of the lease. The tenant would be entitled to depreciate them.

Mr. JAENICKE: Subsection (3) on page 11,—

Mr. MACDONNELL: May I ask a question which comes before that and is under subsection (1)?

Mr. JAENICKE: Yes.

Mr. MACDONNELL: It is subsection (1) (f) I want explained.

Hon. Mr. ABBOTT: That is an old section that has been in the Act for years. There is a cut-off date on income bonds issued in respect of debt created before 1930. Otherwise interest on income bonds is not allowable as a deduction.

Mr. MACDONNELL: Why not?

Hon. Mr. ABBOTT: It is another form of income. It is not a fixed obligation. It is not interest. It is another way of creating a preferred share. That is all it is. You have got security as to capital but the return on it is dependent upon earnings. If there is a fixed interest obligation then you can assess the property whether or not the interest is earned.

Mr. MACDONNELL: But if they are cumulative—

Hon. Mr. ABBOTT: On cumulative preferred shares you cannot deduct interest.

Mr. MACDONNELL: I am talking about bonds.

Hon. Mr. ABBOTT: An income bond is defined there, and with the usual type of income bond interest is only payable if income is earned.

Mr. GAVSIE: Page 83.

Hon. Mr. ABBOTT: This is an old section and I think a perfectly proper section.

Mr. FULTON: What is the meaning of "personal corporation" as used here? Is that what we were talking about earlier, a family corporation?

Hon. Mr. ABBOTT: The definition is in the Act. It has been in the Act for a good many years. You had better look at the definition. It is a corporation which is controlled by a man or members of his family, and a certain percentage of its assets consist of securities or like assets. It is really a personal investment corporation. It is defined at page 40.

Mr. JACKMAN: They are exempt; is that the idea?

Hon. Mr. ABBOTT: They always have been.

Mr. JACKMAN: Are they still being created?

Hon. Mr. ABBOTT: I have been out of the practice of law so long I cannot say. They were going apace when I was still at it.

Mr. GAVSIE: They are still known to the trade.

Hon. Mr. ABBOTT: Mr. Gavsie says they are still known to the trade.

Mr. HACKETT: They are not as attractive as in the old days.

Mr. JAENICKE: May I ask a question about subsection (3), "A person with whom he was not dealing at arm's length." That is new legal phraseology as far as I am concerned.

Mr. JACKMAN: That is the advantage of putting the interpretation section at the back of the Act. You do not know what is there.

Mr. JACKETT: Page 86.

Hon. Mr. ABBOTT: This is a new phrase, but we are doing a little experimenting here.

Mr. FULTON: Will somebody explain the definition?

Mr. JACKETT: It is not so easy. 5(a) is a corporation and its stockholders; that is a subsidiary and a parent. 5(b) is affiliated corporations where the corporations are controlled by the same person, and I think 5(c) speaks for itself. Was that the part you wanted?

Mr. JAENICKE: A man cannot deduct unpaid amounts he owes to a son, let us say?

Mr. JACKETT: Unless he pays them.

Mr. JAENICKE: Unless he actually pays them.

Mr. JACKETT: Yes.

Mr. JAENICKE: Would that have reference to farmers who say they have paid their sons \$1,200 a year wages?

Mr. JACKETT: Certainly if they did not pay them this section would apply.

Mr. MACDONNELL: May I ask another question on the income bonds? Let me read from page 11. "No deduction shall be made in respect of income bonds unless the bonds or debentures have been issued or the income provisions thereof have been adopted since 1930 (i) to afford relief to the debtor from financial difficulties." Are not all bonds put out in order to afford relief to the debtor from financial difficulties? I thought they were.

Hon. Mr. ABBOTT: Yes, but the answer there is that the order of the thing has been arranged. I think it was decided in 1930 to eliminate the interest paid on income bonds as a deduction from gross income. It was felt that as usual in these matters it would not be appropriate to legislate retroactively, and if income bonds had been created prior to 1930 then the existing contracts should be recognized. They do afford an opportunity of getting a tax deduction which presumably parliament in 1930 felt was not appropriate.

Mr. MACDONNELL: This is since 1930.

Hon. Mr. ABBOTT: Yes, but if you read subsection (2), "Since 1930 in place of or as an amendment to bonds or debentures that at the end of 1930 provided unconditionally for a fixed rate of interest."

Mr. MACDONNELL: I missed the "and."

Hon. Mr. ABBOTT: There is a real limitation on it. It is a little technical, but I have had reason to look at this in a professional capacity on other occasions.

The CHAIRMAN: Shall section 12 carry with subsection (b) standing?

Carried.

Section 13, chief source of income.

Hon. Mr. ABBOTT: May I say a word on that? This is a section on which I have received a good many representations that it might be desirable to restore ministerial discretion, and I have some considerable sympathy with those representations. The section reads:

The income of a person for a taxation year shall be deemed to be not less than his income for the year from his chief source of income or from such combination of sources of income as may reasonably be regarded as his chief source of income.

It is sometimes pretty difficult to determine in borderline cases what is the chief source of income. For instance, a case was raised in the House the other day of one of the members on the opposite side of the House who is a farmer with a very prosperous farm and is also in receipt of a parliamentary indemnity. Which is his chief source of income? Expenses can only be deducted from his chief source of income as the section stands. Can he deduct his losses on this farm from his parliamentary indemnity, for instance? There are some very interesting questions arise. Some of the problems that arise in the administration relate to what are known as hobby farmers who have farms for the purpose of farming, of course, but they have other sources of income.

Mr. HACKETT: What possible set of rules could be made to apply to cases like that? Must it not inevitably be ministerial discretion?

Mr. MACDONNELL: It is a terrible suggestion but I suppose it is inevitable.

Mr. HACKETT: I think it is inevitable. I do not see how you can make rules to fit.

Mr. JACKMAN: Let us adjourn on this one.

Hon. Mr. ABBOTT: Perhaps the members of the committee might think it over during the dinner recess.

The CHAIRMAN: We reconvene at 8.30 in room 430.

The committee adjourned at 6 p.m. to resume at 8.30 p.m.

On resuming at 8.30 p.m.

The CHAIRMAN: Any further discussion on section 13?

Hon. Mr. ABBOTT: You will recall that was the section where I said we had received representations that it would be desirable to retain ministerial discretion. I must confess my own personal view is it is a section in which it would be in the interests of the taxpayer to retain it, but I do not want to impose that view on the committee or on the House. We eliminated most of the discretions, but if the committee feels this is a case where this discretion should be retained Mr. Jackett can prepare an appropriate amendment. It would not be difficult. I would be prepared to have that moved.

Mr. STEWART: What would be the position under this section of a taxpayer who has a job and a steady income of \$200 a month, and who on the side has a little farm on which he grows vegetables and flowers and on which he makes money? In my experience that individual has been taxed not only for the income from his job but also the profits from the farm while he has not been allowed to deduct losses sustained on the farm in those years when he had losses. What would be the situation under the section?

Hon. Mr. ABBOTT: I take it in that case—the officials will correct me if I am wrong—his income from the farm would be considered as secondary income. He would be allowed to deduct from that income the expenses incurred in earning the farm income, but he would not qualify as a farmer for the purpose of averaging over what is now to be the five year period.

Mr. STEWART: Let us assume he would earn \$2,400 in a year when he made a loss of \$400 or \$500 on the farm and was not allowed to deduct the loss.

Hon. Mr. ABBOTT: He could not deduct the loss. If his chief source of income was the job then his farm would be secondary income and he could only deduct from his farm income expenses actually incurred in operating the farm.

Mr. STEWART: It struck me as being rather unfair because he simply could not win whereas the department did. If he made a profit on the farm it was added to his income; if he made a loss he could not deduct it from his income. I could never understand the logic of that position.

Hon. Mr. ABBOTT: Of course, an ordinary individual who makes a profit in one year and a loss in the next cannot offset his loss in one year against the profit in another. They are separate periods.

Mr. STEWART: Quite.

Hon. Mr. ABBOTT: The general rule is and always has been that you cannot offset losses incurred in earning secondary income against your earnings or profits from your principal source of income, whether it is a business, salary or whatever it may be. I should have added to what I said that the provision of carrying backward or forward losses would apply in that case.

Mr. STEWART: This happened two or three years ago. The situation is different now. It seemed to me to be unfair.

Hon. Mr. ABBOTT: I think probably the unfairness you refer to would now be largely corrected as a result of the carrying backward or forward of losses.

The CHAIRMAN: Then have you an amendment?

Hon. Mr. ABBOTT: It is not drafted yet. I do not want to force this on the committee, but I think this would be a section where it would be in the interests of the individual taxpayer and the administration to have ministerial discretion. That is my personal view and we have had representations to that effect.

The CHAIRMAN: Shall the section stand for that amendment?

Mr. MACDONNELL: I think there is a case for discretion there.

Hon. Mr. ABBOTT: Then I will have the amendment ready for tomorrow.

The CHAIRMAN: Section 14. Shall section 14 carry?

Mr. JACKMAN: In line 23 it says, "Or in such other manner as may be permitted by regulation." Do I take it from that the department will recognize any well established practice either in connection with a particular company or with an industry generally which may differ from the definition in the first three lines of the section?

Hon. Mr. ABBOTT: The section is to give complete flexibility. The rule is cost or market, whichever is the lower, but that could be varied there. I think the application would have to be general. It could be applied to a type of business but it would have to be the same rule for the same type of business. You could not make a rule for individual businesses.

Mr. JACKMAN: Like companies and like industries.

Hon. Mr. ABBOTT: Quite so.

Mr. JACKMAN: But there is no change contemplated from the present practice by the wording of that section?

Hon. Mr. ABBOTT: Not at the moment.

Mr. TIMMINS: As a matter of fact, I suppose these words, "or in such other manner as may be permitted by regulation" mean that the regulations are going to govern entirely? They might set an entirely new principle?

Hon. Mr. ABBOTT: That is correct. They might adopt what is colloquially known as the life method. I do not suggest the regulation would but it would be possible to do so under the section.

Mr. TIMMINS: The words, "or in such other manner as may be permitted by regulation" really do not have to be co-related to the words that precede that?

Hon. Mr. ABBOTT: Not at all. The words that precede establish the existing practice which is cost or market, whichever is the lower. It is open to provide by regulation for another method if that is deemed necessary or desirable. It is permissive.

Mr. TIMMINS: We are really in the hands of the regulations?

Hon. Mr. ABBOTT: That is true. In a good many cases in the Act the committee will see there is a provision for the enactment of regulations. Those are in large measure to substitute for the present ministerial discretion. The regulations would have to be adopted, published, and they would be subject to interpretation by the courts and subject to appeal in the courts. In that way you get away from the objectionable feature of discretion where the courts cannot interfere with discretion that is not being fairly exercised.

Mr. TIMMINS: The last Deputy Minister of Finance adopted—

Hon. Mr. ABBOTT: Deputy Minister of National Revenue.

Mr. TIMMINS: Deputy Minister of National Revenue adopted a policy whereby rulings that were made were spread across the whole country from office to office of the department so that everybody might know, chartered accountants particularly, that a decision that had been made in Halifax would be applicable to Vancouver. I suppose that the department will follow the same practice in the future, will they?

Hon. Mr. ABBOTT: I understand so. Section 106, subsection (2) on page 70, says:—

No regulation made under this Act has effect until it has been published in the *Canada Gazette* but, when so published, a regulation shall, if it so provides, be effective with reference to a period before it was published.

To answer your question more directly, Mr. Timmins, any decision or any regulation of course is applicable right across the country.

The CHAIRMAN: Shall section 14 carry?

Carried.

Section 15:

Mr. MACDONNELL: I want to ask a question about the last words there, "for the fiscal period or periods that ended in the year". Does that suggest that you might have a fiscal period of less than a year?

Mr. JACKETT: A partnership or individual. You take let us say where a person dies and brings a partnership to an end. The fiscal period ends at that time, so you may have two periods ending in the same calendar year.

Mr. MACDONNELL: You might. I see what you mean.

Mr. FLEMING: In an extreme case, if you had three partners and two of them died within the year there might be three fiscal periods?

Mr. JACKETT: It would be a different partnership then.

Mr. FLEMING: This is the only kind of case that it is intended to apply to?

Mr. JACKETT: I think that is correct.

The CHAIRMAN: Shall section 15 carry?

Carried.

Section 16:

Mr. MACDONNELL: Subsection 2 of section 16, the last part of it: "shall be deemed to have been received by the taxpayer in the year to the extent of his interest therein notwithstanding that there was no distribution or division thereof in that year." Might that not work to force a man to pay a tax on something that he has never been able to get at all?

Mr. JACKETT: This would only apply where he was actually entitled to it.

Mr. MACDONNELL: He might be entitled to it all right, but suppose he was never paid it; suppose he was entitled to it, you might then tax him to the extent of his interest therein notwithstanding that there was no distribution or division; supposing he never got it at all?

Mr. JACKETT: It is just at that time.

Mr. MACDONNELL: He has the right to it but he may have no means of getting it.

Mr. JACKETT: The section would not apply if he had no means of getting it.

Mr. MACDONNELL: But it does not say so.

Mr. FLEMING: Is not that where the decision in the famous old St. Lucia case applies; there is no income until it comes in?

Mr. JACKETT: This refers to the present act which says whether distributed or not.

Mr. FLEMING: It is marked new in the act.

Mr. JACKETT: It is marked new because it sets out two or three words in the present definition.

Mr. FLEMING: I may be wrong, but I was under the impression that it was much wider in scope than the sections referred to in the present act.

Mr. MARQUIS: If there was never any dividend declared and the company went into bankruptcy the man alone never sees it but he has to pay a tax on it. If the company sustains a loss then the profit does not go to the individual. The individual would have to pay the tax on it although he never might receive either a dividend or profit, or whatever it was.

Mr. JACKETT: Are you talking about the shareholders in the company?

Mr. MARQUIS: No. This applies to company or an individual or anybody who may receive some benefit during the year out of some partnership, and say the organization goes into bankruptcy a few months or a few weeks after the end of the fiscal year the individual would receive no profit and yet he will have to pay the tax.

The CHAIRMAN: "Notwithstanding that there was no distribution or division thereof in that year"; could not that be changed to read, "in the following year"?

Hon. Mr. ABBOTT: Perhaps we should let this subsection 2 stand and I will discuss the drafting of it with Mr. Jackett and Mr. Gavsie.

Mr. FULTON: It seems to me there is one but I cannot find it at the moment; isn't there an earlier section which allows employees to assign part of their pay to a union by way of payment of dues and have it deducted from income?

Mr. JACKETT: Yes.

Mr. FULTON: Does not this section 16, subsection 1, provide for that? It says in effect that if you paid money to somebody else who benefits the taxpayer will have to pay the tax.

Hon. Mr. ABBOTT: The provision to which you refer now is in the pension provisions under section 11(g).

Mr. FULTON: Yes, section (g). If he contracts that part of his wages are to be paid to a union he is entitled to have it deducted but he is not entitled to an exemption from income. Now, under 16, (1) it seems to me you are enacting a provision which conflicts with that.

Mr. GAVSIE: No. He must first include it in his income to be entitled to a deduction. He includes it first and then he subtracts it. There would be no point in subtracting if he did not include it in income in the first case.

Mr. FULTON: In section 16, (1) you say, "shall be included in computing the taxpayer's income to the extent that it would be if the payment or transfer had been made to him."

Mr. GAVSIE: It is related to his income and then it is deducted, he takes whatever deduction he may be entitled to, but it must be included in computing his income.

Hon. Mr. ABBOTT: In the same way as he takes a deduction for his marital exemption or for his children. He has to include in his total income and then arrive at the gross, and then he is entitled to deduct the amounts provided for.

The CHAIRMAN: Section 17:

Hon. Mr. ABBOTT: Section 16, (1) carries; but 16, (2) is to stand.

The CHAIRMAN: Yes.

Mr. JACKMAN: This section 16, I take it is to prevent evasion?

Hon. Mr. ABBOTT: That is correct.

Mr. TIMMINS: Could Mr. Gavsie give us an example of what might occur under section 17, (1).

Hon. Mr. ABBOTT: That is sales below market value?

Mr. TIMMINS: Yes.

The CHAIRMAN: Mr. Timmins, Mr. Jackett will answer your question.

Mr. JACKETT: Where a parent company sells goods to a subsidiary company below a fair market value and would therefore show an income less than what it should be this section requires it to take in at fair market value as though it actually had been received.

Hon. Mr. ABBOTT: These are not new sections. Their design is to prevent evasion. Obviously, where a parent and a subsidiary wish to do it they could alter their respective incomes by selling or purchasing too high or too low, as the case may be.

The CHAIRMAN: Shall section 17, carry?

Carried.

Section 18?

Mr. MACDONNELL: I have a question I would like to ask on section 18. It seems to me that it comes back close to the question I asked this afternoon. It says, "a lease-option agreement"—"for the purpose of computing the income of the lessee or other person, be deemed to be an agreement for the sale of the property and rent or other consideration paid or given thereunder shall be deemed to be on account of the price of the property and not for its use." Well now, I thought it very similar. What I wanted to ask about was movables and immovables.

Mr. GAVSIE: You have a case in road-making equipment where an agreement is made to purchase on the instalment basis where you may pay for it in two years. Well then, you charge the whole cost to expenses and immediately resell it at a substantial figure. All the section says is that as far as a lessee or purchaser is concerned he has really entered into a contract to acquire title, and so far as he is concerned that agreement is an agreement of sale and he takes depreciation. If you notice, there is a provision at the end of the section as far as a lessee is concerned, that he is deemed to be the owner thereof. That would be in the category of being entitled to charge depreciation.

Mr. MACDONNELL: Is it clear that this applies to movables only? What is the law with regard to movables only? What is the law with regard to movables and immovables in Quebec?

Hon. Mr. ABBOTT: It means, as distinguished from immovables. Broadly speaking real estate and buildings on real estate are immovables; or machinery which is placed on real estate or buildings; or which is fixed with nails and cement or one thing or another. Mr. Marquis could probably give you a definition a little more exactly than I could, but it is clearly defined. I think in law the distinction between movable property and immovable property and between real and personal property is pretty clearly established.

Mr. JACKETT: I think personal property under the common law would include leasehold interests but movable property would not.

Mr. FLEMING: It applies only with reference to section 11 (1) (a) anyway.

Hon. Mr. ABBOTT: That is correct.

Mr. FLEMING: It is not vesting for all purposes.

Hon. Mr. ABBOTT: No, you merely cannot claim it as expense, and sell it again with real value, you must be the owner or pure lessee.

The CHAIRMAN: Shall section 18 carry?

Carried.

Section 19, loan to non-resident person—exception.

Mr. JACKMAN: Supposing the situation is reversed, is there similar provision? I will have to read the section again to clearly get it in my mind but I have made a marginal note "vice versa"? and I am wondering whether we get the same situation if a Canadian company has a subsidiary in the United States—or rather if the parent company in the United States has a subsidiary in Canada and lends it money. The subsidiary must pay interest, is that it?

Hon. Mr. ABBOTT: That would surely depend upon the American tax law. This is intended to prevent a Canadian company lending money to an outside company and not charging interest for it. I do not suppose we have any concern about the taxation position of a non-resident company if it lends money without interest to a Canadian company.

Mr. GAVSIE: The 5 per cent only comes into play if they have not fixed a reasonable rate themselves.

Mr. FLEMING: Would discretion rest with the minister as to what was a reasonable rate?

Hon. Mr. ABBOTT: It is question of fact. The administration would be the first ones to consider what was the reasonable rate, the taxpayer could go to the appeal board and then to the courts and it is a question of fact for appreciation by the courts.

Mr. FRASER: Supposing the parent company in the United States or in any other country were liquidated would there be a refund of that portion?

Hon. Mr. ABBOTT: It would be a bad debt.

Mr. FRASER: Yes, but would they get it back?

Hon. Mr. ABBOTT: There is a reserve for bad debts and it could be written off against current earnings so there would be a recovery in that form.

Mr. JACKMAN: I do not suppose the department goes so far as to say that if an American company lends a subsidy in Canada money and if it does not charge interest rates the Canadian company would be allowed to set aside 5 per cent for that contingency.

Hon. Mr. ABBOTT: That has not been provided for.

Mr. JACKMAN: It would seem equitable that it might.

The CHAIRMAN: Shall section 19 carry?

Carried.

Section 20, losses in another country not allowed if tax deduction taken in previous year.

Mr. JACKMAN: What does section 20 mean? I could not understand it when I first read it.

Hon. Mr. ABBOTT: It is not a new section.

Mr. JACKMAN: Would you just explain the last three lines "the corporation's income for taxation year shall be deemed to be not less than its income for the year from all sources outside that country."

Mr. JACKETT: Possibly the idea is better put across quickly by the marginal note which says once you have taken a tax credit for tax paid to a foreign country you cannot bring home the losses from that country.

The CHAIRMAN: Shall section 20 carry?

Carried.

Section 21, husband and wife.

Mr. MACDONNELL: I do not understand subsection (4). Would the presumption in the minds of the department be that the husband and wife carrying on business are not really in partnership? Would there be a strong onus on them to establish the opposite?

Mr. GAVSIE: We would start with the presumption that the husband was really carrying on the business unless it was established that the wife really was the owner of the business. In that case we would allow it as the wife's business.

Mr. FLEMING: Take the intermediary case where a wife is giving part of her time to the business. It is pretty hard to break down that presumption which exists in the minds of the department, as I have found.

Mr. GAVSIE: It is a question of partnership rather than the wife working.

Mr. FLEMING: Yes, but you can have a partnership set up on the basis of a division of profits not merely as a result of the relative portion of capital subscribed but also because of the time devoted to the business. Speaking with some experience in this matter, I have found it is very hard to break down the presumption in the minds of the department that the husband is not exclusively the owner of the business and should pay all the taxes and all the business profit is added to his income.

Mr. MACDONNELL: That is the question which I was raising.

Mr. GAVSIE: I think in Bill 454 there was a different provision but there was almost unanimous recommendation that we should go back to the provision contained in the Income War Tax Act.

Mr. FLEMING: I appreciate the concern of the department to try and avoid successes of efforts on the part of the husband to divide his income with his wife under a pseudo-partnership agreement, but I wonder if there is not some ground for relaxation of the presumption the department is working on because in my view it is too rigid. Where the wife is giving part of her time to the business and actually working in the business surely to goodness there should not be a hard and fast presumption that because she did not subscribe any part of the original capital that she is not earning part of the income of the partnership.

The CHAIRMAN: While you are answering Mr. Fleming I will say that I have had many complaints from farmers—

Mr. FULTON: And from country storekeepers.

The CHAIRMAN: Their wives work almost ten hours a day in the fields, milking cows and so on, and in fact one farmer suggested that in his district they would have to trade their wives around so that they could pay them. They can pay their neighbours' wives but they cannot pay their own. Where is the section that prohibits the farmer from paying his own wife?

Mr. GAVSIE: I think that would be subsection (2).

Mr. FULTON: What is the object of preventing a man, say a country storekeeper, from paying his wife a salary if she works in the store with him? If he pays her more than \$750 then they lose their married exemption. Why not allow him to pay up to \$750?

Hon. Mr. ABBOTT: One reason, and this has been argued in the House a good many times, is that you could argue a man should be permitted to pay his wife a salary for running his house and looking after the family. After all, the family is a unit and the income is going to be earned.

Mr. FULTON: A business is different from a house. Presumably, if he did not have his wife working in the business he would have to have some other employee. Many of us would like to provide maids for our wives but we cannot do it because it is on a different basis.

Mr. MACDONNELL: The farmer's wife does all the other things a wife does and the farm work in addition.

Hon. Mr. ABBOTT: That is correct.

Mr. FULTON: What would be the loss to the department if they permitted a country storekeeper or any other storekeeper to pay his wife \$750?

Hon. Mr. ABBOTT: The loss to the department would be an additional \$750 exemption to the husband on income from his business.

Mr. JACKMAN: Less the marital exemptions.

Hon. Mr. ABBOTT: Less the reduction in the husband's exemption because of the wife's income.

Mr. FLEMING: As I indicated earlier, I can see a need for a provision somewhat like this to prevent frauds being practiced on the department merely by the setting up between husband and wife of partnership agreements that are not agreements in fact but simply devices to avoid taxation. However, I cannot help feeling the thing is set up too baldly and that the department has been too rigid.

Hon. Mr. ABBOTT: This has been in the law since 1924. In bill 454, last year, we had a suggested change which said where a husband and wife are partners in a business, the wife's income from the business for a taxation year shall be deemed to belong to the husband except to the extent that it is established to be a reasonable return on the capital invested by the wife in the business. The officials tell me the almost unanimous representation from the representative bodies, the Bar Association, the Accountants and the Tax Foundation, was that we revert to the previous system which was ministerial discretion.

Mr. FLEMING: I think I can see the reason, because that puts it simply on the wife's subscription of capital to the partnership.

Hon. Mr. ABBOTT: That is right.

Mr. FLEMING: On the other hand, quite apart from what she may have subscribed to the capital, there is the time and energy she devotes to the business.

Hon. Mr. ABBOTT: There you get into the question of the husband paying the wife a salary or the wife paying the husband a salary and that has never been permitted in our income tax law, never.

Mr. FLEMING: I think there is some room for easing the rigidity of the ruling. I think there are cases of hardship in this connection within the knowledge of every person in this room.

Hon. Mr. ABBOTT: Perhaps my colleague the Minister of National Revenue could take that as a recommendation to be easier in his interpretation of what is the income of one partner or the other.

Mr. MACDONNELL: In the case of farms, does it not become a very important question? Actually, you have had great difficulty in collecting income taxes from the farmers and you are making a further effort. I think there is the strongest feeling that justice demands some recognition of that fact. I am not at all sure it might not be a good thing right across the board by way of increasing farm production.

Hon. Mr. ABBOTT: It is certainly a question which has been argued in the committee of the House over a number of years to my knowledge. As the chairman has said it has been urged strongly on behalf of farm wives. I feel, myself, if it is given to the farm wife it should be extended to many other wives, wives who help their husbands in little shops. I think, myself, that the wife who looks

after the house and family provides just as valuable a service and deserves just as much consideration as the wife who serves in a job.

Mr. JAENICKE: I would suggest you either allow the farm wife to earn a certain amount or allow a deduction for a hired girl which you do not do at the present time. You cannot make a deduction for the wages of a domestic, can you?

Hon. Mr. ABBOTT: That is right.

Mr. JAENICKE: I think that should be allowed in the case of a farmer. The wages of a domestic in the house should be deductible.

Hon. Mr. ABBOTT: Well, so far, in our income tax law—that is a real policy question of course—so far as the income tax law is concerned, we have never allowed a husband and wife to divide their earned income where they are engaged in the same enterprise, whether it is a farm, a shop or anything else. There is a provision now that a wife who earns a separate income by working for strangers is entitled to receive that income and be taxed on it separately. If it exceeds a certain figure, of course, the husband loses the effect of the married exemption; that is the law. I must say, I have not contemplated that it was desirable to make any immediate change in it.

Mr. JAENICKE: I think you should consider the farm wife, Mr. Minister, and allow the farm wife, at least, to make a deduction for the services of a domestic.

Hon. Mr. ABBOTT: Both I and my predecessor, Mr. Ilsley, have had that request made on several occasions, Mr. Jaenicke.

The CHAIRMAN: Shall section 21 carry subject to the recommendation to the Minister of National Revenue?

Carried.

Section 22?

Carried.

Section 23?

Mr. JACKMAN: May I ask how the ministerial discretion works in clause (b) of section 22 which says,

It is established by the transfer or that the transfer was not made for the purpose of avoiding income tax.

Obviously, any transfer will lessen the income tax to some extent and that might be the main purpose. May I ask how the department interprets that section?

Hon. Mr. ABBOTT: That, again, would be a question of fact. The department would make a determination. The taxpayer, if dissatisfied, would appeal such determination and it would then be for the court or the Income Tax Appeal Board to make a finding.

The CHAIRMAN: Section 23?

Mr. HACKETT: Will the chairman state what is the difference in language between "shall be deemed to be income", and "shall be income". It is in section 22, the last line before paragraph (a).

Hon. Mr. ABBOTT: Would you care to make a comment on that, Mr. Jakkett?

Mr. JACKETT: What section are you contrasting section 22 with?

Mr. HACKETT: I am just asking the significance of "shall be deemed to be income" and how it would differ from the statement, "shall be income".

Mr. JACKETT: I think, in most cases, we have eliminated the use of the expression, "deemed to be".

Mr. HACKETT: Yes, I believe you have.

Mr. JACKETT: We kept it in this one because it is clear it is the income of the transferor. Nevertheless, for the purposes of this Act, we are going to deem it to

be the income of the transferee. It did not seem to be appropriate to say this income which is being received by one person is the income of another when, in fact, it is not. We retained this because it is a straight fiction for the purposes of the Act.

Hon. Mr. ABBOTT: It is really the employment of a provision of the Act that a person cannot transfer property to someone under 19 years of age and give that person an income which can be taxed separately.

Mr. MACDONNELL: With respect to the use of the word "deemed" then, when you see it you know it is not so.

Mr. JACKETT: I think that is right, sir.

Mr. JACKMAN: Suppose a father sets up a trust fund of \$10,000 for a son when the son is aged ten. Until the boy is 19, the income from the trust fund would go into the father's bracket. Legally, I suppose it is owned by the son, but the father must pay the tax on it. In order to have it eventually go to the son, without the taxation having to be paid by the parent after the child is 19, do you have to get a clearance from the department? It says in paragraph (d),

It is established by the transferor that the transfer was not made for the purpose of avoiding income tax.

Does one just treat it as the son's income from there on?

Hon. Mr. ABBOTT: From nineteen years on it becomes the son's income.

Mr. JACKMAN: The clause is quite specific. When it says it is established by the transferor, what does the transferor have to do?

Hon. Mr. ABBOTT: Establish the age of his son.

Mr. JACKMAN: That is establish that the transfer was not made for the purpose of avoiding income tax. Just what happens in the case I mentioned when the child becomes nineteen.

Mr. JACKETT: There are two conditions to this income being included in the transferor's income for the purpose of the Act; one, that the transferee had not attained the age of nineteen and the other is that it is established that it was not for the purpose of avoiding income tax. If either one of these is satisfied the subsection does not apply. One is that the boy attains the age of nineteen.

Mr. JACKMAN: You have to satisfy (b) even if he is nineteen.

Mr. JACKETT: No.

Mr. FULTON: You have to do both. The income will be in the transferor unless the boy was nineteen; and (b) the taxpayer specifies to the department it was not for the purpose of avoiding income tax.

Mr. HACKETT: Would not that go to the authenticity and completeness of the gift? Any gift of capital reduces the income of the giver, or almost any gift. I imagine this section would be interpreted by inquiring into the sufficiency and the complete separation, yielding up the control by the giver to the donee.

Hon. Mr. ABBOTT: Well, we could make it perfectly clear on the interpretation argument if we substituted the word "or" for the word "and".

Mr. JACKMAN: That is much better.

The CHAIRMAN: Shall section 22 carry as amended?

Mr. JACKMAN: Let me get that straight from Mr. Jackett. As I understand it now, if a parent transfers a sum of money to a child when the child becomes nineteen the money and the income of it are irrevocably the child's and the taxation bracket is also the child's and not the parent's; but even prior to a child becoming nineteen, although the department is satisfied that the transfer was, let us say, small and was not done wilfully to reduce the parent's

capital and thereby his income, the income may be taxable in the child's bracket and not in the parent's bracket. That is what you are saying now by substituting the word "or"?

Hon. Mr. ABBOTT: That is correct. There might be a case—a hypothetical case—where a taxpayer transfers a sum to a child who may or may not be a relation—a sum of money to provide for the maintenance of the child. He may be under no legal obligation really to maintain the child, but he wants to make provision for him. It may be a pure gift to charity. Now, Mr. Gavsie of the Department of National Revenue tells me that (b) has never been applied, and if that is the case it is suggested that (b) be dropped entirely and that we leave it at "and not of the transferee". Strike out (a), "The transferee has before the end of the year attained the age of nineteen years," and there would be no (b), and simply continue, "unless the transferee has before the end of the year attained the age of nineteen years."

Mr. FLEMING: I urge that it is better to leave (b) in and have (a) and (b) read alternatively. Look at it from the point of view of the taxpayer. He has two chances in (a) and (b), if we change "and" to "or". If we leave the section as it stands he has only one chance. He has to establish both (a) and (b), and if you take (b) out he has only one chance, but if you leave (a) and (b) in and change "and" to "or" he satisfies the requirement if he complies with either one.

Hon. Mr. ABBOTT: Now, the law as it stands at the present time under the Income Tax Act is more restrictive than that. It provides that even after the transferee attains the age of nineteen years the income may still be considered as income of the transferor unless it is established that the transfer was not made for the purpose of avoiding income tax. It is a little difficult to discuss this with the legal adviser of the department when we are considering the clause. We had better allow subsection (1) to stand, and we will treat it on the same basis as the other section.

The CHAIRMAN: Mr. Gavsie, might I ask one supplementary question on that point. What would be the date of incidence of the gift tax where the donor is still charged with tax on the capital?

Hon. Mr. ABBOTT: I think probably the "or" is a satisfactory drafting, but I would want to look at it again.

Mr. JACKMAN: May I be clear on that? It says, "transferred property to a person who was under nineteen years of age." That dose not exclude one's own children, does it?

Hon. Mr. ABBOTT: Oh, no. There is no restriction on the relationship of the transferee.

The CHAIRMAN: Mr. Gavsie, we need not hold up for that question I asked. I will get the answer later.

Shall section 23 carry?

Carried.

Shall section 24 carry?

Carried.

Mr. HACKETT: Does the answer given about "shall be deemed" with regard to section 22 apply again in section 23, the last line?

Mr. JACKETT: That is right; it is the same type of case.

Mr. HACKETT: The answer is the same?

Mr. JACKETT: Yes.

The CHAIRMAN: Section 25.

Mr. FRASER: I mentioned this afternoon something about an article in the *Toronto Star*. The heading of this article is "Tax paid illegally but refund barred." The article is dated at Ottawa, May 29, and reads:

The income tax department, a court judgment says, has been collecting a considerable amount of money in taxes in error over a five-year period. But it isn't likely many Canadians will get their money back.

In 1942, to attract married women back into industry, parliament amended the Income Tax Act so that where wives were employed, the husbands didn't lose their married status for tax purposes.

The department held that the intention of the act was to encourage women to go into war work and that only women who were "employed" for wages or salary could earn money without changing the tax status of the husband.

If a woman were in business for herself or even jointly with her husband, or engaged in a profession, and had an income of more than \$660, her husband must still be classed as single, the department ruled.

Mr. Justice C. G. O'Connor, in a judgment just handed down, wiped out this distinction.

There are thousands of husbands in this class, but mighty few of them are going to have the pleasure of figuratively reaching into the income tax collector's pocket and regaining their wrongfully paid taxes.

If they received an assessment and paid their taxes for any year, they lost their rights to go to the courts thirty days after paying their assessment. If a year has passed since they paid their assessment, the department is barred by law from repaying them.

I should like the minister to comment on that.

Hon. Mr. ABBOTT: I think perhaps I will ask Dr. Eaton or Mr. Gavsie to comment on that.

Mr. FRASER: Because if the judge has wiped out your ruling, then what are we here for?

Hon. Mr. ABBOTT: We can always amend the law. I will ask either Mr. Gavsie or Mr. Jactett to comment on it.

Mr. MACDONNELL: Have you got any other authority than the *Toronto Star*?

Hon. Mr. ABBOTT: Dr. Eaton will answer that question.

Mr. EATON: I can give the origin of this clause. During the wartime when the government was offering encouragement for women to go into industry and work in war production a provision was introduced in the law that a husband should not lose his exemption because of the wife being employed and earning income. I am not sure those are the exact words, but the words "being employed" were in the statute, being employed and having earned income.

Mr. FRASER: She would have to earn income to be taxable.

Mr. EATON: The department took the view that the words "being employed" meant being employed and not being in a profession or going in business on your own. The department ruled that is what the words meant and the court has reversed that decision.

Hon. Mr. McCANN: This was a professional woman.

Mr. EATON: A professional woman.

Hon. Mr. McCANN: A doctor's wife who was also a doctor.

Mr. FRASER: What happens then?

Hon. Mr. ABBOTT: That wartime section has been repealed.

Mr. FRASER: I know, but the judge has reversed your decision.

Hon. Mr. ABBOTT: The judge interpreted a section, and I have no doubt correctly, because Mr. Justice O'Connor is a very capable judge, but the section which he interpreted, which was put in during wartime, has now been repealed.

The CHAIRMAN: Section 25.

Mr. GILLIS: Just a minute. That is not exactly what the article says. The article is a rather serious accusation, I think, that you have been stealing money from the public for a long time. Unfortunately those who lost that money are not going to get it back. I think it is more serious than the minister is treating it. Is it true? Is that decision handed down by Mr. Justice O'Connor correct that over a period of years the income tax department collected income tax from people in this country who should not have paid it? If that is correct then that money should be refunded despite the fact you have now repealed the section of the Act which presumably gave you authority to make the deductions at that time.

Hon. Mr. ABBOTT: Consideration is being given as to whether Mr. Justice O'Connor's decision will be appealed, so that any decision as to what should or should not be done with respect to taxes paid in virtue of the law as it stood and as he interpreted it will, I think, have to wait determination as to whether the case is going to be taken to the higher court or not; in other words, until final judgment is rendered.

Mr. GILLIS: I think that is a rather serious statement. I certainly do not want the people of this country to think that the Canadian government has a department as important and as well qualified as our Income Tax Department which is just reaching into their pockets and taking money indiscriminately. I think it is a rather unfortunate statement to go out at this time to the public. It certainly does not raise the institution in the minds of the people. If that statement is correct I think myself it is up to the minister or someone else to say that if the money has been wrongfully taken from anyone in this country and that can be substantiated after due consideration the money will be refunded. If I owe the Income Tax Department something they get it two years or ten years later plus interest, and so forth.

Mr. MARQUIS: You cannot say it has been wrongfully collected because there is no final judgment. When there is a final judgment the department will see whether or not the judgment confirms the opinion of the department.

Mr. FLEMING: I think it should be said this is not the first time this situation has arisen where money has been collected for years on the basis of a ruling in the department, and when a case has reached the courts the courts have upset the ruling and found it not to be a correct ruling on the interpretation of the Act.

This situation is not new by any means. I am sure in the experience of the department it has happened a number of times where the courts have said a ruling was wrong. There is the question of what you are going to do about the years that have been assessed and paid and closed. I do not know of any case in which the department has gone back and opened up cases of that kind and made refunds after the period for application for a refund or appeal from the assessment has expired.

Mr. GILLIS: Do you not think they should?

Mr. FLEMING: There are a lot of things I think they should do. That was only one and it would not be one of the biggest I would like to see them do.

Mr. JACKMAN: If judgment finally goes against the department the section which stops a person opening up his return after a certain period would not prevail?

Hon. Mr. ABBOTT: Would you like to explain that?

Mr. JACKETT: I think not only in this Act but in the administration of the law generally you have to have some finality. In this particular Act we have a system whereby there are assessments, provisions for appeals, a whole series of appeals, and a person who is assessed and does not appeal has to abide by that result even if somebody comes along a month or years later and has the law interpreted differently than it was applied in his case. For instance, Mr. Justice Thorsen held that this Income War Tax Act provided for income being on a cash basis and not on an accrual basis; and if you were to open up all the assessments on business that had occurred since 1917 on the basis of that decision, and interpret them on a cash basis, you would just throw your administrative machinery completely out of order.

The CHAIRMAN: You will find, Mr. Gillis, that all your local municipalities treat the matter of taxation in the same way. You appeal against an assessment on your home which you think is too high and which you think has been too high for several years. You finally succeed in your appeal and get it reduced. If you can get assessment reduced in 1940 that does not mean that you can have it apply back over a period of years. You may think that it should have been reduced five years ago, but the revision or reduction does not apply back in the year in which it was granted.

Mr. GILLIS: It is not as simple as that. It is a completely different matter. You set up the Income War Tax Act in 1940. There were a lot of people all through the country who did not know anything about it, and they did not know the intentions, and they did not have the time to run around, to read this thing and get legal interpretations on it. Now, you have this judgment handed down here which says that it should only be on cash income—

Hon. Mr. ABBOTT: No, it does not say that at all.

Mr. GILLIS: Yes, it does.

Hon. Mr. ABBOTT: No, it does not. He has to interpret the law. It was obviously a doubtful point. He has interpreted the law in a certain way. His interpretation may be held to be wrong by a higher court. It is purely a question of legal interpretation. This affects comparatively few people; for instance doctors and married women who are working, and women lawyers—it is a pretty small class. It does not affect women wage earners in any way.

Mr. GILLIS: No, but what I am concerned about, this is a pretty nasty statement to appear in the Canadian press the way it is written up.

Hon. Mr. ABBOTT: Of course, the department is not responsible for the way it was written up.

Mr. GILLIS: It has the responsibility to see that people are given the facts.

Hon. Mr. ABBOTT: I am told that there are a number of cases now under consideration of a similar nature, and where assessments have not been made they are being held up pending a final decision in this case. Mr. Jackett is quite right, it is administratively impossible to go back over the years and reopen the return to taxpayers who have been assessed and who have paid their taxes on the basis of the law as it was believed to be at the time and which might be interpreted in another fashion.

Mr. FLEMING: There would be less complaint about it in such cases if the scales were equal between the government and the taxpayer; but, you see, the government can't come along and reopen assessments against the taxpayers years after, but in cases of this kind finality shuts the door in the faces of the taxpayers where the courts say that the department made a mistake in a ruling. That is where the trouble lies. The scales are not equal as between the taxpayer and the tax gatherer.

Mr. TIMMINS: The taxpayer only has thirty days.

Hon. Mr. ABBOTT: In this case, while it is true that in the law you do not talk about intention, there is not the slightest doubt about what was intended. In the introduction of this law in wartime it was intended that it should apply to wage earners, not to professional women. Now it may be that Mr. Justice O'Connor is right, that the law was imperfectly drawn; but nevertheless there was no doubt as to what the intention of the law was in the minds of the people who framed it; and a reference to Hansard will show that, as I recall it myself.

Mr. HACKETT: May I ask a question on section 24, (1)? Might I ask this question about it? It would seem to deal with a certificate of indebtedness. That might be a promissory note. Supposing that a man was entitled to \$1,000 wages and that the employer gave him a note for \$1,000. I understand that he must enter that in his income as \$1,000, although the note was subsequently redeemed at 50 cents on the dollar. And I am asking if there is no provision made for reserve for bad debts as towards the individual as there is with the corporation?

Hon. Mr. ABBOTT: The important word in the section, Mr. Hackett is "value of the security, right or indebtedness—shall be taxable income".

Mr. HACKETT: I understand that.

Hon. Mr. ABBOTT: I would think the he might include it, and since it is debt, it might be a doubtful debt, but he could take a reserve against it. Wouldn't that be right Mr. Gavsie? The case, of course, that this is intended to meet is not the type of transaction to which you are referring, the payment of wages or earnings by the giving of a promissory note. It is intended to get at bonds or debentures or something of that sort that are given in lieu of cash—stock dividends—that is not covered here but it is covered in another section.

Mr. HACKETT: When would the security be valued? I am just asking, is it valued in the year it is received or the year in which it matures?

Hon. Mr. ABBOTT: In the year it is received.

Mr. HACKETT: You have answered my question.

Mr. JAENICKE: Supposing the employer is perfectly sound at the time and a year later when the note becomes due he may have made an assignment to the bank.

Mr. HACKETT: He has lost his complete income and the \$1,000 was never received.

Mr. JAENICKE: But that cannot be deducted later.

Mr. HACKETT: That is what I understand.

Mr. BREITHAUP: It is too bad that he misvalued the security.

Hon. Mr. ABBOTT: That is right. Mr. Breithaupt is right on that, he has undervalued it at the time. If he is in business, of course and he receives it as a debt in his business he has the reserve against bad debts. He writes off bad debts. But in the case of the wage earner he would have to value it.

Mr. HACKETT: Or the professional man.

Hon. Mr. ABBOTT: Exactly; well, the professional man receives it in the satisfaction of a professional debt and he can reserve for bad debts, of course.

The CHAIRMAN: Section 25.

Mr. TIMMINS: But with respect to section 25, 1 (c); don't you think when we are dealing with the bill afresh that we ought to raise our sight in respect to deductions in favour of dependent children? I think we have to take cognizance of the sharp rise in the cost of living. We all know that \$100 for any child or grandchild qualified as a dependent, or \$300 in the case of a grandchild not qualified for family allowance, is too low.

Hon. Mr. ABBOTT: Are you suggesting, Mr. Timmins, that we ought to increase the amount of the exemption?

Mr. TIMMINS: I think we should.

Hon. Mr. ABBOTT: That is clearly the sort of thing that should be a budgetary item, I am sure you will agree.

Mr. TIMMINS: Or course, I am out of order.

Mr. MACDONNELL: Leave that for next year.

Mr. TIMMINS: I would like to recommend it; I doubt if there are any members of the committee here who would not recommend it if I did not.

Hon. Mr. ABBOTT: In the case of 1 (c), the committee will notice that in the case of a child or grandchild wholly dependent on the taxpayer for support, it is now 21 years of age instead of under 18 years of age. It has been raised from 18 years to 21 years.

Mr. HACKETT: I suppose I find myself again in the position of Mr. Timmins, that there are many people today who had a family of four or five dependent on them a few years ago and then these children went to the war and now they not only have the four or five dependents, but they have four or five dependent families; but there is no provision made for them.

Hon. Mr. ABBOTT: They are very, very fortunate to have such parents in such satisfactory financial circumstances.

Mr. LESAGE: Would I be out of order to make a suggestion now, Mr. Chairman?

Hon. Mr. ABBOTT: Nobody is out of order so far as suggestions are concerned, Mr. Lesage. Any change would clearly be of a budgetary nature; I refer, of course, to increased exemptions such as have been suggested by Mr. Timmins.

Mr. BREITHAUP: Did we not decide this afternoon that we were not going to call this?

Mr. JACKMAN: I would like to bring up an administrative matter in connection with this. I understand that if a child has a certain minimum income—

The CHAIRMAN: Order, order.

Mr. JACKMAN: If a child has a certain income the parents cannot claim the \$100 or \$300 allowance. How much is that independent income?

Hon. Mr. ABBOTT: That is to be provided for in the regulations. Page 69, section 106(h) "The Governor in Council may make regulations defining the classes of persons who may be regarded as dependent for the purposes of this Act." The present administrative practice is and has been for some time, to allow \$400.

Mr. JACKMAN: Is it your intention to have the figure remain there or to recognize the increased cost of living?

Hon. Mr. ABBOTT: That is a matter which is still under consideration.

Mr. FLEMING: I have a similar question to that of Mr. Fulton. Have you had any cases of families who, in respect to the children, qualify for family allowance but have not taken it?

Hon. Mr. ABBOTT: They would not know that in the Department of National Revenue.

Mr. FLEMING: I am wondering if there are any people who for personal reasons decline to take advantage of the family allowance and have, under this section which came into force two years ago, received no benefit by way of increased deductions?

Hon. Mr. ABBOTT: There may be some but there would be no record in the Department of National Revenue. As far as the returns of the Department of National Revenue are concerned the income tax return shows the age of the

children and that determines whether they are entitled to claim exemption of \$100 or \$300. If the children are of family allowance age, whether the parents claim or not, the deduction is \$100 and if they are over family allowance age the deduction is \$300. I still have one child which qualifies for family allowance and my wife is delighted with the cheque. I would hate to try and take it away from her.

Mr. FULTON: What is the average payment per child per month?

Hon. Mr. ABBOTT: It varies with the age of the child.

Mr. FULTON: It would never be as much as \$200 per year per child.

Hon. Mr. ABBOTT: It would be worth more than an exemption of \$200, depending on the bracket. If you were in the 50 per cent bracket, which is a fairly high bracket, the exemption of \$200 is worth \$100 a year which is about \$8 a month.

The CHAIRMAN: Is section 25 carried?

Mr. JACKMAN: On the administrative practice again we come across this very invidious distinction of the breaking even point, where it is not worthwhile for a wife to work after she gets \$750. As the section now reads a wife who works is entitled to \$250 exemption and when she earns up to \$750 the difference between \$750 and \$250—\$500—is deducted from the marital exemption of the husband, but if she earns \$751 the \$1 cuts the husband's marital exemption from \$250 to nothing. Administratively you may have a reason for doing that, perhaps you do not want to have a long schedule, but certainly in some industries where women could earn more than \$750 it keeps them from working and it is a serious deterrent to production, thereby feeding the fires of inflation.

Mr. FLEMING: Hear, hear.

Hon. Mr. ABBOTT: Perhaps Dr. Eaton might comment on that.

Mr. EATON: It is true that as soon as the wife's income passes the \$750 mark the husband does lose that exemption but there is a provision in the law that his tax shall not be increased by more than \$1 if his wife's income is over \$750—it is what we call a notch provision—and you reach the point where if the wife earns \$760 the additional tax is \$10 up to the point which they equal.

Mr. JACKMAN: How many women do you think will work if they have to give the whole \$10 or the whole \$100 to the Crown? I think on the average it is nil.

Hon. Mr. ABBOTT: It would obviously depend upon the husband's bracket where the line would be crossed.

Mr. JACKMAN: Obviously if she earns \$750 up to \$1,000 the whole \$250 has to be given to the Crown.

Hon. Mr. ABBOTT: Only the tax on \$250, not the whole \$250, and if they are in a low income bracket the tax would not amount to much.

Mr. JACKMAN: The wife is taxed on the excess above \$750 because she exceeds her single exemption and the husband is reduced to a single exemption; and the total tax on the extra earnings may well come to 60 per cent or 70 per cent in the case of a person earning just over the \$750.

Mr. FLEMING: I think Dr. Eaton's explanation requires some further clarification. I wish he would work us out some specific instance. We had this matter discussed at some length in the House two years ago when this came into effect and we had the point raised then that this \$1, when the wife goes from \$749 to \$750 costs \$250. One dollar costs \$251 in exemptions.

The CHAIRMAN: Dr. Eaton will prepare a table to put in the minutes, covering an actual case. Shall the section carry?

Mr. FLEMING: With respect I wish to follow this up. It did not seem to me that the point Dr. Eaton made explained or met the point which Mr. Jack-

man was making. Where do we find this notch provision apart from the provision for making a gift to His Majesty?

Mr. EATON: My point was that if the wife's income was \$751 that does not mean a penalty of more than one dollar to the husband. He does not have to pay tax on the \$250 income that he loses from his exemption. His tax goes up by \$1 if her income is \$1 over the \$750. If the husband's bracket were twenty per cent that \$250 would represent a tax of \$50 so that his tax would not be increased by \$50 until her income reached \$800. You see the progression upward. If she had \$10 over the \$750 his tax would be increased \$10 and so on; if she had \$770 his tax goes up \$20, instead of taking the full brunt of the tax on the \$250 exemption if he is deprived of it.

Mr. FLEMING: It gets back to the same basis as making a gift to His Majesty.

Mr. EATON: That is correct. This is a general provision making it unnecessary to go through the mechanics of making a gift in excess of the amount of exemption. In general terms the husband's tax shall not be increased by more than the amount of his wife's income in excess of \$750.

Mr. FLEMING: That only goes part way to meet the problem raised by this one unhappy dollar which deprives the husband not of \$1 but of \$250 exemption for the wife's support. Again we may be on policy but would it not be much fairer to allow the wife to earn \$750 and deprive the husband only of the actual earning of the \$250?

Mr. EATON: The problem arises because of the \$250 tax free income at the bottom—that is really where the problem starts.

Mr. JACKMAN: Do not take that away from us.

Mr. EATON: I am just giving you the origin of the problem.

Mr. JACKMAN: It is an accepted fact that we do not want to change that for very obvious reasons but you do discourage women from working and earning over \$750 unless they are going to get way over \$1,000. It is a serious thing to industry and discrimination is made against industry and the welfare of the country.

Mr. HACKETT: May I ask a question? We have, in section 26, subsection (1)—

The CHAIRMAN: What section, Mr. Hackett?

Mr. HACKETT: Section 26.

Some hon. MEMBERS: We are on section 25.

Mr. HACKETT: Oh, I am ahead of you so I will wait.

Mr. FULTON: I should like to ask a question concerning the administrative interpretation given to section 25, (1) (d) which provides that a deduction may be made by a taxpayer who supports his parent or grandparent who is dependent by reason of mental or physical infirmity. Take the case of a taxpayer who is supporting his mother who is 60 years of age and, therefore, technically able to work. Obviously it is a proper social duty for a taxpayer to support his mother. Does the department allow a deduction under those circumstances?

Mr. GAVSIE: We are very liberal in our interpretation of that. We take the taxpayer's word in most instances.

Mr. FULTON: Thus, if he is supporting his parent under those circumstances, you take his word for it?

Mr. GAVSIE: Yes, in most instances.

The CHAIRMAN: Section 26?

Mr. HACKETT: I wanted to inquire if there is anything in the Income Tax Act that interferes with the right which existed under the gift tax of disposing of one-half of the difference between the taxable income and the tax, free of gift tax?

Hon. Mr. ABBOTT: The section in the gift tax which we come to later has not been changed and there is nothing in this section which is in conflict with that section.

The CHAIRMAN: Shall section 26 carry?

Mr. JAENICKE: Have you any rule about charitable organizations to whom donations may be made? Is that fixed by regulation?

Hon. Mr. ABBOTT: That is fixed by law. I think I mentioned that in the House. What is a charitable organization or what is a gift for charitable purposes has been fixed by a long line of cases, I am told, particularly in England. It is a matter of mixed fact and law as to what is a charitable donation. There are borderline cases, of course. The most recent controversy concerns the setting up of memorial halls in small towns; rinks and that sort of thing.

Mr. JAENICKE: What has been your attitude towards rinks?

Hon. Mr. ABBOTT: Each case has to be looked at on its merits.

Mr. FRASER: Are those cases being looked after now? There have been applications in regard to those and has any decision been made upon them? Those applications deal with memorial halls and rinks?

Hon. Mr. ABBOTT: I am told that a new and more liberal directive is being prepared and will be circulated by the department.

Mr. FRASER: How soon? We have been waiting for some months.

Mr. JAENICKE: I think we are all interested in rinks.

Hon. Mr. ABBOTT: Mr. Gavsie says as soon as we get through this bill. I do not know whether or not that is supposed to be an incentive.

Mr. FLEMING: Is that the same directive or a different one from that which the minister announced in the House?

Hon. Mr. ABBOTT: That is the one to which I was referring. A directive was sent out earlier which was, perhaps, more restrictive than the accepted legal definition of a charitable undertaking would justify, and it is a new directive on a more liberal basis, as Mr. Gavsie says, perhaps more in line with this case I referred to as being prepared and will be issued shortly. Perhaps Dr. McCann would say a word.

Hon. Mr. McCANN: The situation was that under the War Charities Act a lot of things were spelled out to which donations were allowable for income tax. The War Charities Act was repealed last year, or part of it. Then we had to revert to what constituted donations to charitable organizations under the Income Tax Act and we said that things were charitable that were for the relief of poverty and for educational institutions. It has been determined since that there might be a more liberal interpretation of that. We were put in the position that that was the only law; but it is in the previous definition of organizations for charitable purposes.

Mr. JACKMAN: In connection with 26(a) and (ii): "In the case of an individual, ten per cent of his income for the year, if payment of the amounts given is proven by filing with the minister receipts from the organizations;" there are some people in the community who would like to give away more than ten per cent of their income if they could get tax reductions, and I learned only recently from the department, I think it was, that an individual could give as much as he wished to charity without reference to the gift tax. He can give away any amount of his capital he wants to, but if the government sees fit to allow that freedom what reason does the government ascribe to its action in

not allowing an individual to give up the fruits of that capital during one year without stint? If they allow him to give away the tree, why can he not give away the fruits? He may wish to keep his capital in case of evil days befalling him, but he may want to give more than ten per cent. Is there any sound reason for the ten per cent limitation?

Hon. Mr. ABBOTT: At the present time, as you know, or until the amendment this year, there was a limitation of 50 per cent on the gifts a person could make for succession duty purposes. Now, that has been changed and brought into line with the law existing in the two provinces of Canada which still continue to levy provincial succession duties. Of course, a gift of this kind, as you point out, Mr. Jackman, can do two things; it can reduce income and it can also reduce the estate for succession duty purposes. Now, in making a gift of capital for charitable purposes there is no longer any succession duty reduction.

Mr. HACKETT: The time limit is still there.

Hon. Mr. ABBOTT: The time limit is still there, that is right—three years; not for charitable deductions.

Mr. JACKMAN: The point I made was not with regard to succession duties but in regard to gift tax. You can give away your capital—all you want.

Hon. Mr. ABBOTT: In effect, of course, what you are doing here is saying that an individual can select his own particular benefit.

Mr. JACKMAN: You have recognized that.

Hon. Mr. ABBOTT: We do not tax capital gains and we do not have a capital levy. The only form of capital tax, if one may call it that, is the succession duty tax. Now, income tax is one of our main sources of raising revenue, and the state now provides a good deal of social service of one sort or another, so it must raise substantial revenues from the taxpayers, and there is a limit to which one can allow a man to pick out his own form of social service and get tax exemption for it.

Mr. JACKMAN: I cannot understand why, if you believe that, as you apparently do on your present statement, you allow an individual to give away the tree but you will not allow him to give away the crop.

Hon. Mr. ABBOTT: The main reason is because I say we do not tax capital. There is a pretty fair deterrent there. People are rather reluctant in a good many cases to give large chunks of capital to charity. They never know what may turn up. They may need it themselves. They are willing to make a gift but they wish to keep their capital free to protect their position. I think perhaps that is as good an answer as I can give you. Human nature being what it is I think that while people may make fairly generous gifts out of income there are a good many who are rather reluctant to make too large gifts out of capital.

Mr. FULTON: May I ask what consideration was given under 26(b) to adopting the American practice which I understand is somewhat more generous than ours with respect to medical expenses, and what was the argument against it?

Hon. Mr. ABBOTT: The American exemption system is this. They allow 10 per cent as a blanket charge to cover charitable donations, medical expenses and everything else. That would be great and very simple from the point of view of administration, but I am afraid charitable donations would suffer severely because people would take the deduction but they would not give to the churches or hospitals or the other charitable organizations. The average medical expense does not run for the average family more than 4 or 5 per cent, I do not think.

Mr. FULTON: Is the American system not a little different from that? Are you not allowed up to 10 per cent without specification, but if you want more than ten per cent and you can prove you have paid to charity or for medical expenses more than 10 per cent—

Hon. Mr. ABBOTT: You have got an option. Where you claim your actual I am told in the United States it is 5 per cent instead of our 4 per cent.

Mr. FULTON: For medical expenses?

Hon. Mr. ABBOTT: For medical expenses. Ours is more generous.

The CHAIRMAN: Gentlemen, in order to be fair to the reporting staff, it is after 10 o'clock, and perhaps we should adjourn. I was wondering if the committee would be in a position to carry the three remaining sections so that we might start on division D.

Mr. FLEMING: I am quite willing to stay until we finish section 29, but I have a couple of questions I should like to ask.

The CHAIRMAN: It would be very much better if we could clear this division so as to start on a fresh division.

Mr. FLEMING: Before we leave this matter of the 4 per cent I do wish the minister would give consideration to making it more generous. After all, if he would reduce the percentage it would be a sizeable contribution towards helping a good many families. However, I wanted to ask a question with regard to the medical expenses. We have had this problem up before in the House. I am asking about the administrative practice now in a situation which discriminates to the disadvantage of the urban dweller. His physician does not fill his own prescriptions. They are filled at the drug store and the department does not make any allowance for medicines bought at the drug store under a doctor's prescription. But the country physician does his own dispensing, supplies his own medicine and includes it in his account and the department allows the account in full. Now, that might look like a small matter but a good many people in the smaller income brackets particularly find that their accounts for medicine may run to substantial amounts, may run over \$100 in the case of serious illness in the family. And that means a great deal, particularly to the family of small means.

Hon. Mr. ABBOTT: Well, medical expenses have to be in excess of 4 per cent of the taxpayer's income before any deduction can be made. That is point No. 1. If they are in excess of 4 per cent it is generally as a result of a fairly heavy illness and long hospitalization or something of that sort; and under those circumstances the cost of drugs in total is not a large factor; and under those circumstances it would all be covered really. But anything above 4 per cent of the taxpayer's income can be claimed as a deduction, with a limitation which is a little more generous now; it is now \$1,000 instead of \$900. This is a matter which comes up year after year in the House.

Mr. FLEMING: Yes, I have brought it up before myself.

Hon. Mr. ABBOTT: That is a thing which could create a terrific administrative problem, a problem which it would be absolutely impossible for them to undertake. There are too many drug stores in the country and they sell too many kinds of drugs and other things; and I can say right now that it would be administratively impossible to make that sort of thing work.

Mr. FLEMING: Why could you not have a proper statement of account as in the case of doctors, have the drugs and medicines itemized and submitted in the same way as doctor's accounts. In the case of doctors in the country as I said, the bills for medicines is included in the doctor's statement. I know of a case of illness in the family where the medicine used amounted to over \$100. If that had happened in the country the patient would have had the benefit of it, in the city it is turned down.

Mr. TIMMINS: What Mr. Fleming has said is very often the case, that the cost of medicine in connection with an illness may be very considerable. I know a case of a member of this House who paid \$1,000 a year for care and his drugs were about 25 per cent of the sum.

Hon. Mr. ABBOTT: Does he get his drugs through his physician? I feel in that case it would be desirable to have a medical practitioner who is providing the care of hospitalization include those drugs in the hospital or doctor's account, in which case they would be fully claimable. In the case of that kind I would think it would be very much in the interest of the taxpayer to arrange his purchases of drugs so that they would be clearly claimable.

Mr. TIMMINS: That is a practice which is allowed?

Hon. Mr. ABBOTT: Yes.

The CHAIRMAN: Carried.

Mr. JACKMAN: Might I ask, is the 4 per cent on the gross income of the individual, or is it on the net income after taxes?

Hon. Mr. ABBOTT: It is on the taxable income before deduction of taxes.

Mr. JACKMAN: It makes an awful difference.

Hon. Mr. ABBOTT: No. I must correct myself. It is his income before taking off any of his personal exemptions, such as the \$1,500 for married status, or exemption of \$300 or \$100 for children as the case may be.

Hon. Mr. McCANN: If he has a \$4,000 income and his medical expenses are \$200, he gets an exemption of \$40.

Hon. Mr. ABBOTT: It is more in the case of a married man, Mr. Jackman, a man with \$4,000 income, before deducting the \$1,500 married exemption—it would be 4 per cent of \$4,000.

Hon. Mr. McCANN: No, no.

Mr. JACKMAN: Let's take the case of a wealthy individual who has an operation. He pays for a lot of things in addition to the services rendered to him. He pays for the public wards. Now, if the 4 per cent is applied to his income before taxes the amount is considerably greater than if it applied to 4 per cent of his income after taxes. If it were applied after taxes there would be some humanity about it.

Hon. Mr. ABBOTT: The basis of the provision is this. There has to be an arbitrary line drawn somewhere, and 4 per cent was considered as a reasonable proportion of one's income which might be an average amount for medical services, and that any medical expenses in excess of that would be abnormal. We all know, or at least I understand that a great many people who are wealthy pay higher fees to their surgeons than poor people do, and they do it because their incomes are bigger; therefore, in their case, they pay a higher percentage of income for medical services than the man of more moderate means.

Mr. JACKMAN: But greater justice would be done if the 4 per cent applied to income after taxes than before.

The CHAIRMAN: Gentlemen, it is a quarter after ten. It is not fair to the reporting staff to keep them longer. We will adjourn until 3.30 tomorrow afternoon in the same room.

The committee adjourned to meet again tomorrow, June 16, 1948, at 3.30 p.m.

APPENDIX "A"

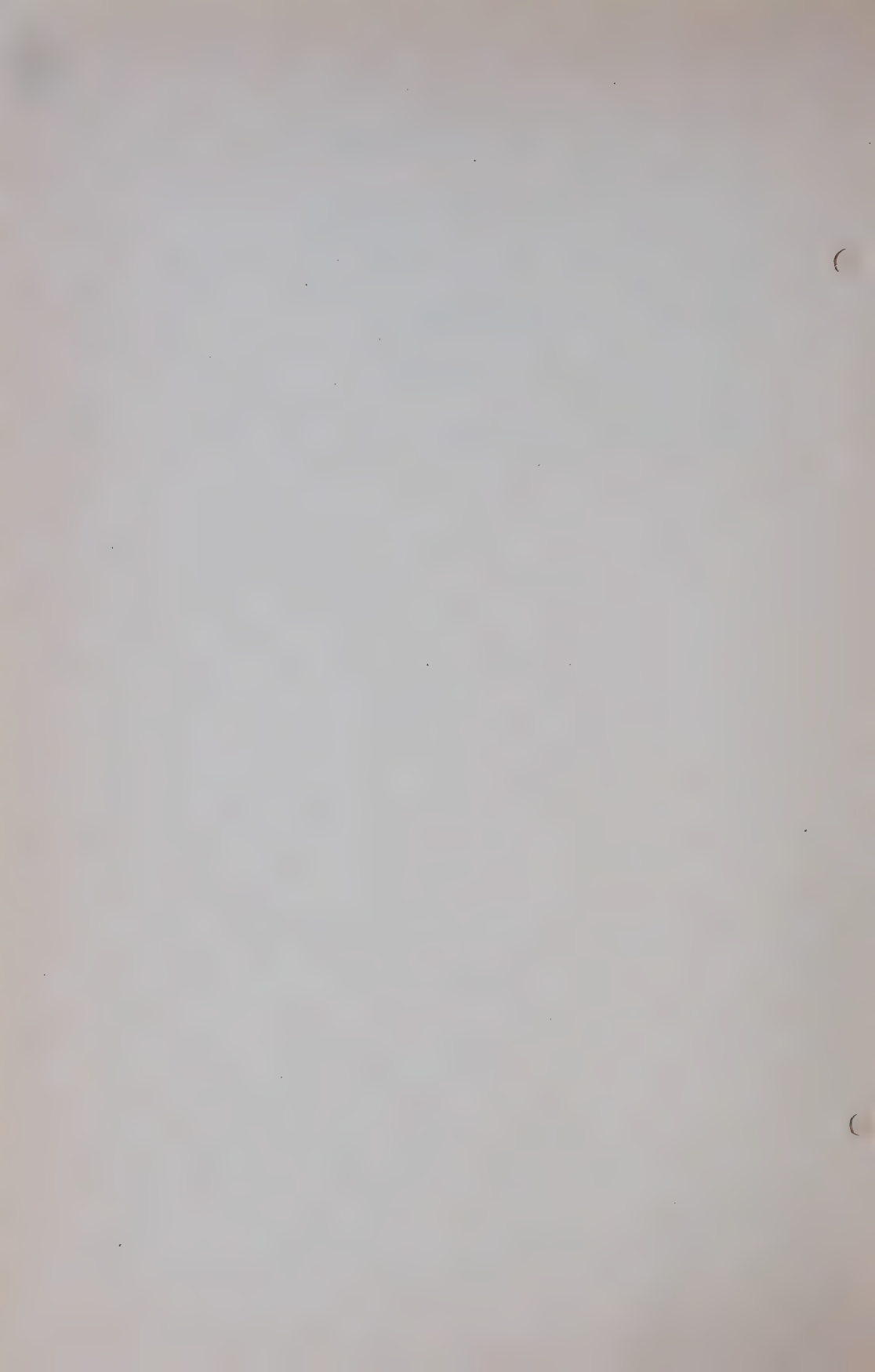
LIST OF THE NAMES OF ORGANIZATIONS AND INDIVIDUALS WHO
HAVE MADE REPRESENTATIONS AND SUBMITTED BRIEFS
TO THE MINISTER OF FINANCE WITH REFERENCE
TO BILL NUMBER 338, AN ACT RESPECTING
INCOME TAXES

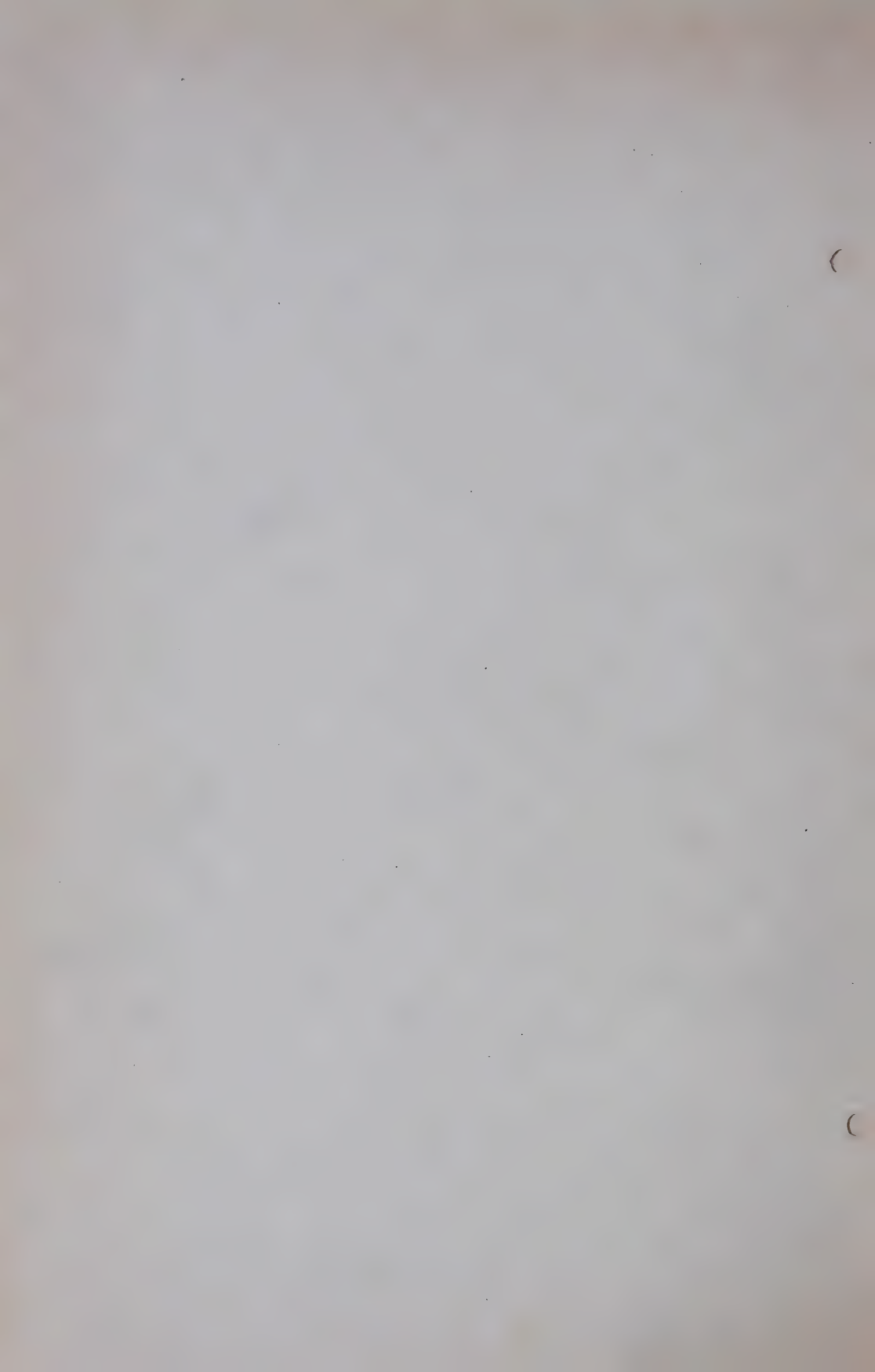
Representations by

Board of Trade of the City of Toronto, Toronto.
 Canadian Metal Mining Association, Toronto.
 River Hebert Co-operative Services, River Hebert, Nova Scotia.
 The United Farmers Co-operative Company, Toronto.
 Commuters Club of Windsor, Windsor.
 Quebec Asbestos Producers' Association, Asbestos, Quebec.
 The Canadian Chamber of Commerce, Montreal.
 Fred J. Grover, Vancouver.
 Mr. Earle Rowe, Ottawa.
 Brooklyn Co-operative Society Limited, Newport, Hants Co., N.S.
 Chauvin, Walker & Martineau, Montreal.
 Grenville Park Co-operative Housing Association Limited, Kingston.
 Cassels, Brock & Kelley, Toronto.
 Domestic Coal Operators' Association of Western Canada, Drumheller, Alta.
 Stanley E. Edwards, Osgoode Hall Law School, Toronto.
 Ducks Unlimited (Canada), Winnipeg.
 Saskatchewan Municipal Hail, Regina.
 Additional Municipal Hail, Regina.
 Mrs. N. A. Anderson, Toronto.
 Workers' Co-Operative of New Toronto Limited, Timmins.
 The Canadian Life Insurance Owners Association, Toronto.
 Commercial Travellers Association of Canada, Toronto.
 Canadian Retail Federation, Toronto.
 Chambre de Commerce du District de Montreal, Montreal.
 Nanaimo Board of Trade, Nanaimo, B.C.
 Canadian Dental Association, Toronto.
 Canadian Association of Garment Manufacturers.
 Edmonton Chamber of Commerce, Edmonton.
 Calgary Board of Trade, Calgary.
 Harvey & Yanda, Edmonton.
 Herridge & Tolmie, Ottawa.
 Frank B. Common, K.C., Montreal.
 Chambre de Commerce de Saint-Pascal, Saint-Pascal de Kamouraska.
 Cardston and District Chamber of Commerce, Cardston, Alta.
 J. C. Lynch, Vancouver, B.C.
 Canadian Council of Professional Engineers and Scientists, Ottawa.
 Department of External Affairs, Ottawa.
 Department of Insurance, Ottawa.
 Western Insurance Company, Toronto.
 The Canadian Fire Insurance Company, Winnipeg.
 The Canadian Indemnity Company, Winnipeg.
 Dominion Coal Board, Ottawa.
 Department of Trade and Commerce, Ottawa.
 Fox Harbour Co-operative, Fox Harbour, N.S.
 Co-operative Union of P.E.I., Charlottetown, P.E.I.
 Capital Co-operative Limited, Fredericton, N.B.
 Westport Co-operative Society Ltd., Westport, N.S.
 Riverdale Co-operative Ltd., West Bay Rd., N.S.
 Edmonton Chamber of Commerce, Edmonton, Alta.
 Wellington Co-operative Association Ltd., Wellington, P.E.I.
 Trust Companies Association of Ontario and Quebec, Toronto, Ont.
 Cabot Co-operative Society Ltd., North Shore, N.S.
 Iona Co-operative Ltd., Iona, N.S.
 Dasco Employees Credit Union Ltd., Sydney, N.S.
 Reserve Mines Consumers Co-operative, Reserve Mines, N.S.
 Main-a-dieu Co-operative Society Ltd., Main-a-dieu, N.S.
 Blue Ribbon Co-operative Society Ltd., Little River, N.S.
 British Canadian Co-operative Society Ltd., Sydney Mines, N.S.

St. Michael's Co-operative Ltd., Widgeport, N.S.
 British Columbia Lumber Manufacturers Association, Vancouver, B.C.
 The Law Society of Alberta, Edmonton, Alta.
 Liverpool Co-operative Society Ltd., Brooklyn, N.S.
 Co-operative Union of Canada, Ottawa.
 Le Conseil Canadien de la Co-opération, Ottawa.
 John W. Gilbert, Hanover, Ont.
 United Corporations Ltd., Montreal, Que.
 Alfred C. Dobell, Quebec, Que.
 Ontario Mining Association, Toronto, Ont.
 Imperial Oil Limited, Toronto, Ont.
 Osler Hoskin and Harcourt, Toronto, Ont.
 F. H. Leslie (Niagara Falls Evening Review), Niagara Falls, Ont.
 Herbert J. Basington, Toronto.
 Canadian Bankers Association, Toronto.
 A. W. Parish, Hamilton.
 Gordon F. MacLaren, Ottawa.
 H. J. Riley, K.C., Winnipeg.
 Manitoba Bar Association, Winnipeg.
 Canadian Business Consultants, Ottawa.
 Dr. J. A. MacFarlane, Toronto.
 Investors Syndicate of Canada Ltd.
 Canadian Tax Foundation, Toronto.
 Canadian Infantry Association.
 Hiram Walker-Gooderham and Worts Ltd., Walkerville, Ont.
 Herbert Adamson, Winnipeg.
 George E. Hardy, St. James, Man.
 Canadian Medical Association, Toronto, Ont.
 George A. Touche and Co., Toronto, Ont.
 Economic Investment Trust Ltd., Toronto, Ont.
 Dominion-Scottish Investments Ltd., Toronto, Ont.
 W. H. Howard, Montreal.
 Gordon M. Webster, Montreal.
 International Nickel Co. of Canada, New York, U.S.A.
 Robert MacGregor Dawson, Toronto, Ont.
 Dominion Association of Chartered Accountants
 Ebenezer Saskatchewan Co-operative Wheat Pool.
 Shoe Manufacturers' Association of Canada
 R. J. B. North, A.P.A., H., Hamilton, Ont.
 D. King Hazen, M.P.
 Farmer Mutual Insurance Companies of Quebec
 Catholic Farmers Union Mutual Insurance Society
 New Glasgow Co-operative Society Ltd.
 United Grain Growers Limited—Brief.
 Mrs. Vincent X. McEnavy, Toronto, Ont.
 Canadian Electrical Manufacturers Association.
 C.C.H. Canadian, Limited, Toronto, Ont.
 National Life Assurance Company of Canada.
 The Tor Bay Cannery Company Limited, Larry's River.
 Dominion Joint Legislative Committee Railway Transportation Brotherhoods.
 St. Peters Co-operative Society.
 The Oxford Co-operative Limited.
 Mid-West Metal Mining Association, Winnipeg, Man.
 Canadian Bar Association.
 R. A. Howes, Esq.
 Canadian Lumbermen's Association.
 Pontix Co-operative Association Ltd., Pontix, Sask.
 Morien Co-operative Society, Port Morien, N.S.
 Ontario Co-operative Union, Port Elgin, Ont.
 Canadian Investment Fund Limited.
 Halifax Co-operative Society Ltd.
 West Arichat Co-operative Society Ltd., West Arichat, N.S.
 Demaine Co-operative Association, Demain.
 Hannah, Nolan, Chambers, Might & Soucier (Barristers), Calgary.
 Canadian National Institute for the Blind.
 N. A. Robertson, Esq., High Commissioner in the U.K.
 Co-operative Union of Canada.
 Western Quebec Mining Association.
 Ships Cove Co-operative Society Ltd., East Ship Harbour, N.S.
 Judique Co-operative Society, Ltd., Judique, N.S.

Shipowners Association (Deep Sea) of British Columbia.
Port Felix Co-operative Society, Musquodobay Harbour, N.S.
Port Hood Co-operative Limited, Port Hood, N.S.
B.C. Loggers Association
B.C. Lumber Manufacturer's Association.
Bay View Co-operative Creamery Limited, Selma, N.S.
Whycocomagh Co-operative Ltd., Whycocomagh, N.S.
Little Dover Co-operative Society Ltd., Little Dover, N.S.
Cross Roads Co-operative Society Ltd., Parrsboro, N.S.
Dominion Mortgage & Investments Association.
Central Co-operative Society, St. Margaret's Village, N.S.
Robert Simpson Company Limited, Toronto, Ont.
Mabou Consumers' Co-Operative, Mabou, N.S.
Seaside Co-operative Limited, Amherst, N.S.
Miss Dorothy E. Greensmith, Regina, Sask.
Canso Co-operative Society Ltd., Canso, N.S.
Armstrong Co-operative Society, Armstrong, B.C.
Senator G. Peter Campbell.
British Columbia Provincial Council of Carpenters.
Mr. J. H. Constantine, Vancouver, B.C.
McCabe Grain Company, Winnipeg, Man.





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SESSION 1947-48

HOUSE OF COMMONS

STANDING COMMITTEE
ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 14


Consideration of Bill No. 338,
intituled,
"An Act respecting Income Taxes".

WEDNESDAY, JUNE 16, 1948.

WITNESSES:

Hon. D. C. Abbott, Minister of Finance;
Dr. A. K. Eaton, Assistant Deputy Minister of Finance;
Mr. W. R. Jackett, Assistant to the Deputy Minister of Justice;
Mr. Charles Gavsie, Co-ordinator and Chairman of Executive, Taxation
Division, Department of National Revenue.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1948



MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, ROOM 430,
WEDNESDAY, June 16, 1948.

J.

The Standing Committee on Banking and Commerce met this day at 3.30 o'clock p.m. Mr. Hughes Cleaver, Chairman, presided.

Members present: Messrs. Abbott, Belzile, Benidickson, Black (Cumberland), Bradette, Breithaupt, Coté (St. John's-Iberville-Napierville), Fraser, Fulton, Gillis, Gour (Russell), Harkness, Harris (Danforth), Irvine, Isnor, Jaenicke, Lesage, Macdonnell (Muskoka-Ontario), Marquis, Nixon, Pinard, Rinfret, Smith (York North), Stewart (Winnipeg N.), Timmins.

In attendance: Hon. J. J. McCann, Minister of National Revenue, Mr. V. W. Scully, Deputy Minister of National Revenue; Mr. A. K. Eaton, Assistant Deputy Minister of Finance; Mr. W. R. Jakkett, Assistant to the Deputy Minister of Justice; Mr. Charles Gavsie, Co-ordinator and Chairman of Executive, Taxation Division, Department of National Revenue.

The Committee resumed consideration, clause by clause, of Bill No. 338, An Act respecting Income Taxes.

The Minister of Finance, Hon. D. C. Abbott, a member of the Committee, assisted by Messrs. Eaton, Jakkett and Gavsie answered all questions asked by the members in respect to each and several clauses under study.

Clauses 28 to 49, both inclusive, with the exception of clause 45 were adopted without amendment.

On Clause 45

On motion of Mr. Isnor, it was

Resolved,—That clause 45 of the said Bill be amended by inserting the words "or fishing" after the word "farming" in the second line thereof.

Clause 45, as amended, was adopted.

On Clause 50

On motion of Mr. Abbott, it was

Resolved,—That it be recommended that clause 50 of the said Bill No. 338, be amended by substituting "7 per cent" to "8 per cent", in paragraph (b) of subsection one thereof.

Clause 50, as amended, was adopted.

Clause 51 was discussed at length and was stood over.

The Committee, thereafter, reconsidered clauses 8, 11, 12, 13, 16 and 22, which were stood over from previous sittings.

On Clause 8

On motion of Mr. Abbott it was

Resolved—That it be recommended that the words in subsection (2) of clause 8 of Bill 338 "shall be included in computing the income of the shareholder for the year" be deleted and the following substituted therefor: "shall be deemed to have been received by the shareholders as a dividend in the year."

Clause 8, as amended, was adopted.

On Clause 11.

On motion of Mr. Abbott, it was

Resolved—That it be recommended that paragraph (b) of subsection (1) of clause 11 of Bill 338 be revised to read as follows:

(b) such amount as an allowance in respect of an oil or gas well, mine or timber limit, if any, as is allowed to the taxpayer by regulation;

THAT subsection (2) of the said clause 11 be revised to read as follows:

(2) There may be deducted in computing the income of a shareholder from shares in a corporation whose income is from the operation of an oil or gas well, or mine, such amount, if any, as is allowed by regulation;

AND THAT subsection (3) of the said clause 11 be revised to read as follows:

(3) Where a deduction is allowed under paragraph (b) of section 1 in respect of an oil or gas well, mine or timber limit operated by a lessee, the lessor and lessee may agree as to what portion of the allowance each may deduct and in the event that they cannot agree, the Minister may fix the portions.

Clause 11, as amended, was adopted.

On Clause 12.

With the understanding that the departmental officials would supply the Committee with certain information, requested by Mr. Fulton, Clause 12 was adopted without amendment.

On Clause 13.

On motion of Mr. Abbott, it was

Resolved—That it be recommended that Clause 13 of Bill 338 be revised to read as follows:

13. (1) The income of a person for a taxation year shall be deemed to be not less than his income for the year from his chief source of income.

(2) The Minister may determine which source of income or sources of income combined in a taxpayer's chief source of income for the purpose of this section.

Clause 13, as amended, was adopted.

On Clause 16.

Further consideration was given to the said clause but it was again stood over.

On Clause 22.

On motion of Mr. Abbott, it was

Resolved—That the word "and" at the end of paragraph (a) of subsection (1) thereof and paragraph (b) of the same subsection (1) be deleted.

At 6.00 o'clock p.m. the Committee adjourned to meet again in the evening at 8.30 o'clock p.m.

EVENING SITTING

The Committee resumed at 8.30 o'clock p.m. Mr. Hughes Cleaver, Chairman, presided.

Members present: Messrs. Abbott, Belzile, Benidickson, Breithaupt, Cleaver, Dionne (*Beauce*), Fraser, Fulton, Gillis, Gour (*Russell*), Harkness, Hazen, Isnor, Jackman, Jaenicke, Macdonnell (*Muskoka-Ontario*), Marquis, Rinfret, Timmins.

In attendance: Hon. D. C. Abbott, Minister of Finance, and the Departmental officials who are listed in attendance at the afternoon session.

The Committee resumed the adjourned consideration, clause by clause, of Bill No. 338, An Act respecting Income Taxes.

Hon. D. C. Abbott, assisted by Messrs. Eaton, Jackett, and Gavsie explained the various clauses as each were reached.

Clauses 52 to 55, both inclusive, were adopted without amendment.

On Clause 56.

On motion of Mr. Fulton, it was

Resolved—That clause 56 be amended by inserting after the word "reason" in the second line thereof the word "only".

Clause 56, as amended, was adopted.

On Clause 57.

On motion of Mr. Abbott, it was

Resolved—That paragraph (i) of subsection (1) of clause 57 of Bill 338 be revised by substituting the following for subparagraph (ii) thereof

- (ii) the members thereof were corporations or associations
 - (a) incorporated or organized as credit unions deriving their revenues primarily from loans made to members,
 - (b) incorporated, organized or registered under provincial co-operative legislation or governed by such legislation, or
 - (c) incorporated or organized for charitable purposes, or were corporations or associations no part of the income of which was payable to, or otherwise benefited personally, any shareholder or member thereof,

Clause 57, as amended, was adopted with the exception of paragraph (e) of subsection (1) thereof which was allowed to stand.

Clauses 58 to 67, both inclusive, were adopted without amendment.

On Clause 68

On motion of Mr. Abbott, it was

Resolved—That it be recommended that paragraph (b) of subsection (1) of clause 68 of Bill 338 be revised by inserting the words "or within 12 months thereafter" after the words "within the year" in the first line thereof.

The following further proposed amendments to clause 68 were read by Mr. Jackett:

Resolved,—That it be recommended that paragraph (e) of subsection

- (4) of clause 68 of Bill 338 be revised to read as follows:

- (e) "payment" includes,

- (i) the issue of a certificate of indebtedness or shares of the taxpayer or of a corporation of which the taxpayer is a

- subsidiary wholly-owned corporation if the taxpayer or that corporation has in the year or within 12 months thereafter disbursed an amount of money equal to the aggregate face value of all certificates or shares so issued in the course of redeeming or purchasing certificates of indebtedness or shares of the taxpayer or that corporation previously issued,
- (ii) the application by the taxpayer of an amount to a member's liability to the taxpayer (including, without restricting the generality of the foregoing, an amount applied on account of a loan from a member to the taxpayer and an amount applied on account of payment for shares issued to a member) pursuant to a by-law of the taxpayer, pursuant to statutory authority or at the request of the member, or
 - (iii) the amount of a payment or transfer by the taxpayer that, under subsection (1) of section 16, is required to be included in computing the income of a member;

That the following paragraph be added to the said subsection (4);

- (h) "consumer goods or services" means goods or services the cost of which was not deductible by the taxpayer in computing the income from a business.

That the paragraphs in the said subsection (4) be rearranged in alphabetical order; and

That subsection (6) of the said clause 68 be revised to read as follows:

(6) Where a payment has been received by a taxpayer in respect of an allocation in proportion to patronage (other than an allocation in respect of consumer goods or services), the amount thereof shall be included in computing the recipient's income for the taxation year in which the payment was received and, without restricting the generality of the foregoing, where a certificate of indebtedness or share was issued to a person in respect of an allocation in proportion to patronage, the amount thereof shall be included in computing the recipient's income for the taxation year in which the certificate or share was received and not in computing his income for the year in which the indebtedness was subsequently discharged or the share was redeemed.

After a brief discussion, it was agreed that copies would be prepared to be distributed to each member before these further amendments are considered.

The study of Bill No. 338 was adjourned to the next sitting.

The Chairman informed the Committee that communications had been received from the following:

1. Letter and brief—

Messrs. Foster, Hannen, Watt & Stikeman, Montreal, dealing with clause 57 (1) (e) of Bill 338.

2. Telegrams from—

Geo. S. Houghman, Esq.,
General Manager,
Canadian Retail Federation,
Toronto, Ont.

D. L. Morrell, Esq.,
Executive Secretary,
The Canadian Chamber of Commerce,
Montreal, P. Q.

J. S. Duncan, Esq.,
President,
Massey Harris Company Ltd.,
Toronto, Ont.

The Winnipeg Chamber of Commerce,
Winnipeg, Man.

Bernard Couvrette, Esq., K.C.,
President CWGA,
Montreal, P. Q.

R. E. Walker, Esq.,
Provincial Secretary,
Retail Merchants Association,
Saskatoon, Sask.

all of which referred to clause 68, subsection 4, of the proposed Bill.

Some discussion followed as to the procedure to be followed at future sittings. It was finally agreed that the Committee, at its next sitting, would consider only such of the clauses as are not contentious.

Clauses 51, 68, 117, 119, and 126 will not be considered until the evening session, Thursday, June 17th, or at a subsequent sitting, if necessary.

The Chairman proposed, and it was agreed, that reconsideration of non-contentious clauses adopted at the next sitting of the Committee would be granted at the request of any member unavoidably absent during the deliberations of the Committee by reason of the fact that such member was in attendance before another important Committee sitting at the same time.

At 10.00 o'clock p.m. the Committee adjourned to meet again at 3.30 o'clock p.m., Thursday, June 17, 1948.

ANTOINE CHASSE,
Clerk of the Committee.

1872-1873
1874-1875

1876-1877

1878-1879

1880-1881

1882-1883
1884-1885

1886-1887
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1900-1901

1902-1903
1904-1905

1906-1907
1908-1909

1910-1911
1912-1913

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

June 16, 1948.

The Standing Committee on Banking and Commerce met this day at 3.30 p.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: Order, please, gentlemen. We shall begin with section 27. Mr. Macdonnell, have you any questions on section 27? I believe we completed this last night, but I am calling it to make sure.

Section 28? Shall section 28 carry?

Mr. MACDONNELL: Is this a new section?

Hon. Mr. ABBOTT: No, this is an existing section. There is no change in this section. There may be some improvements in the wording.

Mr. MACDONNELL: No change at all?

Hon. Mr. ABBOTT: No change in substance.

The CHAIRMAN: Shall section 28 carry?
Carried.

Section 29?

Mr. FRASER: Have you had any briefs from any of the insurance companies on this section, Mr. Chairman?

Hon. Mr. ABBOTT: I have had some, Mr. Fraser, and I think there are no important changes in policy here but I think the drafting points which were raised by the insurance companies have been substantially met in the revision of the Act. So far as the insurance companies are concerned, as I remember it, there were some suggestions with respect to the improvement of the language.

Mr. MACDONNELL: Is the language of (c) unchanged? Section (c) reads, in part,

In a case where an amount equal to dividends or portions of dividends would be deductible—

Hon. Mr. ABBOTT: I think the main change, if I may call it that, Mr. Macdonnell, is to spell out in statutory form what has been the practice for some time in the Department of National Revenue in assessing insurance companies. Of course, as the committee knows, the major portion of the income of life insurance companies is not subject to income tax because it goes to policy holders. It is only that portion of the income which is distributed to the shareholders which is taxed and that is only in the case of companies which are not mutual life insurance companies.

The CHAIRMAN: Section 29 is carried?

Carried.

Section 30? Shall section 30 carry?

Carried.

Section 31 is the one we would all like to amend. Is section 31 carried?
Carried.

Section 32?

Mr. MACDONNELL: Before you leave section 31 finally, without commenting on the first part of it or going through all the subsections, I should like to ask whether there are any changes of substance in the language there?

Hon. Mr. ABBOTT: Royalties have been excluded from investment income in the case of authors and inventors which is a type of relaxation which will be appreciated by the committee. Therefore, that type of income will not be subject to the surtax for investment income.

As arose in connection with another section yesterday, a notch provision has been put in to take care of marginal cases instead of the gift to the Crown which was a device under the existing Act, subsection (8) on page 24. Those are the only changes of any substance.

Mr. JACKMAN: May I refer to subsection (2) of section 30 relating to taxable income earned in Canada by non-residents. Subsection (2) differs very considerably from the ordinary 15 per cent withholding tax which would be applicable in most cases, does it not?

Hon. Mr. ABBOTT: There is no change in the law. It has been in force for some time.

Mr. JACKMAN: Take the case of an American, let us say, who wholly owns a company in Canada.

The CHAIRMAN: It is the old section 25 (a), if you want to check it.

Mr. JACKMAN: Perhaps section 25 (a) was not to my liking, I do not know. I should like to understand it. Why does this differ so radically from the 15 per cent withholding? I also ask, is a Canadian who owns a corporation in the United States treated in the same way by the American tax laws?

Hon. Mr. ABBOTT: I might ask Dr. Eaton to give an explanation as to why the law is in the form it is.

Mr. EATON: The section reads as follows:

Where one or more non-resident persons rendered services in Canada as directors, officers or employees of a corporation carrying on business in Canada the majority of the voting shares of which were owned or controlled by him—

and so on. It is a wording to prevent evasion. There is only a 15 per cent tax on the dividend coming out of the company. By not taking fees or salaries in compensation for his services and instead taking out earnings through the dividend route, he could avoid the tax on earned income. If this section were not there, he would only pay the 15 per cent tax on dividends going abroad.

Mr. JACKMAN: As it stands now, then, he is taxed both on the earned income and the dividend income he receives from the wholly owned corporation?

Mr. JACKETT: Look at clause 33; you will see he has a tax credit against his main income tax.

Hon. Mr. ABBOTT: He also takes a tax credit in the foreign jurisdiction for either a tax deduction on dividends or taxes paid with respect to earnings in Canada.

Mr. JACKMAN: Against the amount he would otherwise pay in Canada?

Hon. Mr. ABBOTT: That is right

The CHAIRMAN: We are dealing with section 32.

Carried.

Mr. BENEDICKSON: Could that be explained. Does that apply to all provinces or only to provinces that are not in agreement with us on taxation matters?

Hon. Mr. ABBOTT: This applies in respect of provinces which impose a tax on individual incomes.

Mr. JACKMAN: This means that any province may put on a 5 per cent income tax and not cost the taxpayer anything because he gets full credit for it?

Hon. Mr. ABBOTT: The concurring provinces have turned over their rights to the personal income tax, but the non-concurring provinces could, as Mr. Benidickson intimated, impose the 5 per cent tax and that could be taken as a tax credit. Neither Ontario nor Quebec has done so.

Mr. JACKMAN: I am wondering. They have to know from non-concurring provinces whether they want to give that right or not. Does this right come from an agreement with the concurring provinces?

Hon. Mr. ABBOTT: No, it is merely to enable the non-concurring provinces to impose personal income tax if they see fit to do so. As Mr. Ilsley said, when he put his proposals to the provinces in July, 1946, they were framed so far as possible to enable those provinces which for one reason or another felt it was not in their interest to accept it, to do so without their tax position being unduly prejudiced. Of course, any province which put on a personal income tax, as you have intimated, would, I suppose, be a bit unpopular. Most taxes are unpopular.

Mr. BENDICKSON: Mr. Jackman referred to the 5 per cent tax. Is that on taxable income—the 5 per cent of the actual amount of tax that we would impose?

Hon. Mr. ABBOTT: Five per cent of the tax otherwise payable to the Dominion. That is the maximum we will allow.

Mr. JACKMAN: A twentieth.

Hon. Mr. ABBOTT: It would be a twentieth.

Mr. FRASER: That would be including the surcharge if there was one?

Hon. Mr. ABBOTT: Yes.

The CHAIRMAN: Shall section 33 carry?

Carried.

Shall section 34 carry?

Mr. MACDONNELL: I would like to ask a question about this section 34. Am I correct in understanding the option given in the latter part of that clause, the lump sum payments, as I understand it, covers perhaps many years of service. I will read the part I am speaking about: "the payment or payments made in a taxation year may, at the option of the taxpayer by whom it is or they are received, be deemed not to be income of the taxpayer for the purpose of this part, in which case the taxpayer shall pay, in addition to any other tax payable for the year, a tax on the payment or aggregate of the payments equal to the proportion thereof that the tax payable under this part for the last complete taxation year in the employment is of the employee's income for that year." Does that mean that assuming a man has a salary of \$6,000 a year and he reaches the end of his employment, and let us say that he got a single payment out of his superannuation of \$20,000, then he would pay in that one year a tax on that equal to the tax which was payable by him on his \$6,000 during his last year's full employment?

Hon. Mr. ABBOTT: That is correct.

Mr. MACDONNELL: Is not that a hardship? Here is a man who is getting \$20,000.

Hon. Mr. ABBOTT: It is a relief measure.

Mr. MACDONNELL: I want to know whether the relief is enough. Take the case of a man in my own illustration who gets \$20,000 which, let us say, might yield him \$1,500 a year for the rest of his life and he would then be liable to pay a tax on that equal to the rate which he paid on \$6,000 a year, which was his full salary when he was in employment. Is that correct?

Hon. Mr. ABBOTT: That is right.

Mr. JACKETT: What is known as the effective tax, the actual tax, in your example of \$1,000 tax on \$6,000 would be $\frac{1}{6}$ of \$20,000.

Mr. MACDONNELL: He would not be taxed to anything like that extent let us say on \$1,500 which he would be receiving, if he was taxed year by year.

Hon. Mr. ABBOTT: But he has the capital at the end of it.

Mr. MACDONNELL: I was assuming that he would have an annuity.

Mr. EATON: You are comparing the tax on the total amount with what he would pay on the yield from that amount?

Mr. MACDONNELL: I am not sure that I have it right but my understanding is that the result of this section is that he would pay a tax on the total amount at the rate which he paid on his salary during the last year of full employment.

Mr. EATON: That is correct.

Mr. MACDONNELL: That seems to be a great hardship because ex-hypothesy his future tax is to be on a much lower rate than it was and he is paying on what was his highest earning capacity.

Mr. CLEAVER: Is it not at the option of the taxpayer?

Mr. MACDONNELL: That is the lesser of two evils. The options left are worse.

Hon. Mr. ABBOTT: This is a payment in lieu of remuneration—it is in lieu of superannuation if he gets it in a lump sum. There are various alternatives—for instance there was an old system of dividing it over five years. There is unquestionably a large income element in it and this provision was to impose a tax on what is entirely income and free from capital as at the rate of his last year's earning.

Mr. MACDONNELL: What does the minister mean by entirely free from capital? If my illustration was accepted as a fair illustration he is going to pay on the whole thing.

Hon. Mr. ABBOTT: As he would have paid on the whole thing if he had earned it over a period of years.

Mr. MACDONNELL: We are talking about a man whose earning capacity is through and who gets a lump sum, in this case to maintain him for rest of his life.

Hon. Mr. ABBOTT: Not necessarily.

Mr. MACDONNELL: That is surely the practical case.

Hon. Mr. ABBOTT: No, a great many concerns have not worked out pension plans and they have old employees and what they do is to give them \$5,000 or \$10,000 or \$15,000. It is kind of an ad hoc proposition.

Mr. MACDONNELL: My argument is even stronger if it is not enough to give him an adequate income. Then I think the hardship is even greater?

Hon. Mr. ABBOTT: The presumption is he has made provision for himself out of other sources. A good many of us are not in lines of business where we get these pensions on a lump sum basis. We do not get them in professions like mine, we have to provide it ourselves and pay tax upon it ourselves.

Mr. MACDONNELL: May I direct your attention to these words "in the case of retirement of an employee in recognition of long service and not made out of or under a superannuation fund or plan". There is a case where the intention surely is that it is an amount which is designed for the most part at any rate to provide support for the remaining years.

Hon. Mr. ABBOTT: If he received it as an annual amount he would have to pay income tax on it.

Mr. MACDONNELL: That is all I am saying, and he should be treated in the same way by paying an approximation to what would be his tax position if he had received it over the course of years and was taxed on it year by year. Now as I see it he is being taxed at a much higher rate than he otherwise would be taxed and what is fair about that?

Hon. Mr. ABBOTT: Well with a pension plan, to the extent that it could be spread over a period of years—that depends on the plan.

Mr. MACDONNELL: This does not, this is the case of a single payment.

Hon. Mr. ABBOTT: Perhaps Mr. Gavsie could comment on that.

Mr. GAVSIE: If it is a payment out of a superannuation or pension fund he would have deducted his payments into the fund from year to year. I think there was the suggestion made yesterday that in the case of life insurance we allow the premium as a deduction but tax the payment when the risk matures. This first case is a case where he would have deducted his annual payments into the fund under one of the previous sections. Now he is getting a lump sum payment out of the fund, and it is taxed as income.

Mr. MACDONNELL: He should be able to spread it over a period of years, surely.

Mr. GAVSIE: If this section were not here this payment would be added to his other income. In other words, if he had other income of \$10,000 and he got \$20,000, he would pay a tax on \$30,000 if it were not for this section.

Mr. MACDONNELL: I agree, it could be worked that way.

Mr. GAVSIE: Under this section he would be taxed separately on the \$20,000. It would not be added to his otherwise taxable income.

Mr. IRVINE: Does this not cover the case of Mr. Macdonnell's illustration?

Mr. GAVSIE: This is a relieving section.

Hon. Mr. ABBOTT: Mr. Macdonnell's point is that it does not go far enough.

Mr. MACDONNELL: Mr. Gavsie pointed out very properly that it might have been worse, but it does relieve him. He might be in a worse position if it were not for this section. I still say I do not think it is fair. I think this man is being penalized by reason of the fact that he has not been in a position where there has been a properly worked out pension plan fund set up where he will receive his pension over a course of years and pay tax at the ordinary rate. I do not want to make a nuisance out of myself by pressing this matter unduly; but it does seem to me that nevertheless you have left him in a very worse situation than what he should be in.

Mr. BENIDICKSON: I do not think that is uncommon. Before this law was changed in 1946, a provision was put in so that a payment on account of retiring allowance or pension could be spread over four or five years for taxation purposes. I should like to read an extract from a letter which I have before me which shows the position of the taxpayer.

Existing legislation permits a termination payment or a retiring allowance to be spread over five years for income tax purposes but resolution 27 leaves no option but that the entire sum be taxed in the year in which it is received either at the rate for that year or at a rate equal to the percentage of tax paid by the taxpayer during his last full year of employment.

We have two specific examples of men about to retire and in both cases taxing under proposed resolution 27 will involve a much greater tax penalty than under existing law.

Example "A"—The average rate of tax paid by this man in his last full year of employment; namely, 1945, was $37\frac{1}{2}\%$. When he ceases to draw salary from us his income will be reduced by \$6,000 a year.

If, on his retirement, we decide to pay him one year's salary he could, under existing legislation, spread the payment over five years for tax purposes and his tax would be negligible. Under resolution 27 a rate of 37½% would extract \$2,250 from the \$6,000 at a time when the man can ill afford to have his income reduced.

Hon. Mr. ABBOTT: It would be perfectly open to the employer to spread the payment over four or five years but in many cases the employee prefers to get a lump sum payment rather than to have it spread over four or five years, no doubt feeling that he would like to have the enjoyment of the larger amount in case that he did not live the longer period to have enjoyment of it and the benefit would go to his heirs. If the employer sees fit to spread it over four or five years it is taxable in the years over which it is spread. An arrangement could be made between the employee and the employer to have the lump sum payment spread over such periods I have indicated. The case raised by Mr. Benidickson is a good one. It could have been avoided of course, by the employer and the employee agreeing that the payments should be made in instalments of so many dollars a year over four or five years. There is nothing to prevent that kind of an arrangement in a superannuation fund or anything else.

Mr. MACDONNELL: That being so, what I can't understand is why do you take advantage of cases where that has not been done; and, as Mr. Jackman points out, the employee very often has no option in the matter. I wonder if the minister would take another look at it?

Hon. Mr. ABBOTT: We will take a look at it next year. It has been looked at, I can assure you.

Mr. MACDONNELL: It should be looked at very carefully.

Hon. Mr. ABBOTT: I can assure my honourable friend it has received very careful consideration. I speak from personal experience.

The CHAIRMAN: Shall section 35 carry?

Mr. JACKMAN: On this section 35 as to a person who resides in Canada 150 days of the year and has residence elsewhere the balance of the time then his tax is 150/365ths; is that right?

Hon. Mr. ABBOTT: That is right. This is a relieving provision. We apportion it in accordance with the number of days. This was put in two years ago I believe.

Mr. JACKMAN: On the assumption that the man was travelling the rest of the time and that he is not subject to any other taxing jurisdiction does this still apply? Suppose he tours the rest of the time?

Hon. Mr. ABBOTT: I am told he does not have to be taxed on the part he earned abroad by the foreign jurisdiction in order to take advantage of this provision.

Mr. JACKMAN: And that has reference to all types of income that is earned or investment income?

Hon. Mr. ABBOTT: That is correct, right across the board.

The CHAIRMAN: Section 36. Carried?
Carried.

Section 37.

Mr. MACDONNELL: We had a definition of the phrase "deemed to have been" last night, and I thought we had that tacked down. We have that phrase here in the fourth line. The section reads:

A corporation may deduct from the tax otherwise payable under this part for a taxation year during which it was resident in Canada an

amount equal to the income tax deemed to have been paid to the government of a country other than Canada.

and so on. What is meant by those words, "deemed to have been paid"?

Hon. Mr. ABBOTT: I think the short explanation of that is that all taxing jurisdictions do not tax the same thing in the same way, but perhaps either Mr. Gavsie or Mr. Jackett would elaborate on that.

Mr. MACDONNELL: The reason I raise it—

Hon. Mr. ABBOTT: That puts it very shortly though. Different taxing systems vary according to the exemptions allowed and that sort of thing.

Mr. MACDONNELL: In previous cases of the use of the word "deemed" it was explained it meant something that had not actually happened but for purposes of construction was presumed to have happened. In this case is the income tax not actually paid to the government of the other country, and if not what is the significance of the word "deemed"?

Mr. JACKETT: Are you looking at paragraph A or B?

Mr. MACDONNELL: Section 37, line 14.

Mr. JACKETT: It is deemed to have been paid to the government of the country on the income out of which the dividends are paid. Now, you have a tax paid to the foreign country on the foreign corporation's income, the whole income, and the allowance can only be made in respect of the portion of that tax that we consider to have been paid on the income out of which we regard the dividends as having been paid. The whole thing is flexible because taxes are not paid with respect to particular dollars of income. Dividends may not have been paid under any income at all for that year.

Hon. Mr. ABBOTT: It may have been paid out of previously earned income, out of surplus.

The CHAIRMAN: Is section 37 carried?
Carried.

Section 38. Is section 38 carried?
Carried.

Section 39.

Mr. HARKNESS: In connection with this section, can a farmer elect to go on that five-year average plan before the fifth year or does he have to wait until the end of the fifth year before he elects?

Mr. GAVSIE: There is a first provision which makes the first group of averaging four years, and then after that he would elect in any year which would cover that year and the previous four years, or a total period of five years.

Mr. HARKNESS: I am thinking of the farmer who has never put in an income tax return, and he puts in an income tax return this year. Is he able to elect when he puts that in to go on the five-year average?

Mr. JACKETT: To elect under this section the farmer has to have filed returns for the preceding four years.

Mr. HARKNESS: In other words, a man cannot come under this thing until he has filed an income tax return for four years?

Mr. GAVSIE: In view of the averaging provision having been put in two or three years ago, this coming year will be the first year we have had the four-year experience, including 1949.

Mr. HARKNESS: Are there any farmers now on the former three-year averaging scheme?

Mr. GAVSIE: The first year which would be included in the average would be 1946, so you would not have any averaging yet. Under the old legislation the first year of averaging was a three-year period and would have been the

1948 taxation year. The return would be due next year. It is moved ahead one year more, so that the first year of averaging would be 1949 and would include 1946, 1947, 1948 and 1949.

Mr. HARKNESS: Well, that means that this is not really operative until 1949. No averaging is operative until 1949?

Mr. GAVSIE: On an actual basis the average would be for 1949—1946, 1947, 1948 and 1949.

Mr. HARKNESS: The farmer who goes out of business this year cannot get any advantage out of this averaging, can he?

Mr. GAVSIE: He is no longer a farmer.

Mr. HARKNESS: Say that he dies, he naturally cannot get any advantage and his estate would not get any advantage.

Mr. GAVSIE: If he ceases to be a farmer he would not get any benefit.

Mr. HARKNESS: The thing is actually inoperative until 1949 or really until 1950.

Mr. GAVSIE: The return made in 1950 is for the 1949 taxation year.

Mr. JAENICKE: Will the farmer be able to average up to that period every year? That is the way it was explained to us two years ago.

Mr. EATON: Perhaps I might explain that. As originally announced, the average was based on a moving average of three years, and you would average three years and then in the next year you would pick up a new year and drop the old one. Each year you averaged that year with the two previous years. That system was found to be very complicated. The new provision is that you may average blocks of years, not overlapping. The first will begin with 1946, and the next averaging will be the subsequent five-year average. Any farmer may start in any time if he has filed a return and average any one year with the preceding four years, but he cannot use the same years in the five-year period in any other average. It is a block system. Perhaps that is the best way to explain it.

Mr. JAENICKE: He would have to wait five years before he can average again?

Mr. EATON: Yes, that is correct. We have made provision that he may still carry forward his losses. A loss in any one of these years can be carried back one year or ahead three years. He still retains the privilege of offsetting losses of one year against profits of previous or future years. After having had that system of carrying backward or forward the losses he may, after a five-year period, take that block of years and average his income and if his tax has been overpaid then there is a refund coming to him. Under a graduated tax the effect of a high year is taken off by averaging with the low years. He may find that if he has had a high year under a graduated tax he will have a refund coming.

The CHAIRMAN: May he deduct the difference between his exemption and his earnings or just his losses?

Mr. EATON: Just his actual losses.

Mr. JAENICKE: Suppose a farmer has a loss for two succeeding years and he has an income the third year, can he deduct the loss in the third year?

Mr. EATON: He uses up his first year loss first.

Mr. JAENICKE: Supposing that shows no loss?

Mr. EATON: That second loss he has can still be carried forward three years in turn, but he uses them up in sequence. Of course, if he has four years of losses the loss of the first year cannot be used because there has been no income in the three succeeding years to absorb it and the second year of loss may still have a third year ahead where it can be used.

Mr. ISNOR: With regard to the beginning and end of the block period, take, for instance, 1940 to 1945, that is a five-year period: could a fisherman start in 1943 and carry it over to 1948 after having computed from the period 1940 to 1945?

Mr. EATON: The first year in which the averaging may commence is 1946.

Mr. ISNOR: I know. I am going to make my next point on the next block of five years—1945 to 1950. I will start with my block 1945 to 1950, if you like.

Hon. Mr. ABBOTT: Take 1946 to 1951.

Mr. ISNOR: Can he start on his second or third year a new block?

Mr. EATON: If he has used any one of the five years he cannot use them again.

Mr. ISNOR: Any portion of them again?

Mr. EATON: No, not a portion. The blocks may not overlap; they are distinct blocks of years.

Mr. ISNOR: Take a fisherman or a farmer—most members are talking about farmers so I will talk about fishermen—he is only allowed to compute on your basis every five years?

Mr. EATON: That is correct, with the exception of starting in; in 1949 he may take four instead of five.

Hon. Mr. ABBOTT: We believe it is more generous and better than the moving three-year average.

Mr. ISNOR: Except you are allowed to go back one year on the other and take that into consideration.

Mr. EATON: That is under the losses carry-over provision.

Mr. ISNOR: He would not want to go back if he could show a large income.

Mr. EATON: I was referring to the losses. He still retains the right under this averaging to deal with his losses the same as any other taxpayer. He averages the result of incomes adjusted after having carried backward or forward the losses, counting any actual year of loss as zero.

Hon. Mr. ABBOTT: Farmers and fishermen, distinct from a good many other taxpayers, can take a five-year period, and in common with other taxpayers can carry losses backward and forward; but, as I understand it, he has a special provision that he takes a five-year block where the rest of us have to take a twelve-month block.

Mr. ISNOR: Except that he must begin at a certain date and close with a certain date, and he cannot take any portion of that block and carry it into a second one.

Hon. Mr. ABBOTT: He cannot use it twice for the purpose of averaging, but he can select his period; he can go on 1946, 1947, 1948, 1949, etc.

Mr. FULTON: He cannot stop halfway through and say, "I want to start afresh"?

Hon. Mr. ABBOTT: That is right; he cannot do that.

Mr. ISNOR: During the standard profit period 1936 to 1938 we had a depression period. Now, it is possible that a fisherman or a farmer might go through a depressed period of five years or one of prosperity, and in that way he would not be able to enjoy the benefit of this legislation unless it happened to work along the lines that you have in that particular block. That is what I am trying to offset. Instead of confining him to a block of five years it should be spread over a period of ten years. I do not want the ten years to cover a ten-year period, but rather to allow him to reach back into that first period and extend into the second block. I think that is the way the three-year period worked.

Mr. EATON: He can elect. The farmer or fisherman need not start in averaging on the first year, 1946; he can elect any time to average five years if he has not previously used those same years. It is not that there is a block of four years that everybody has to take; the man can elect at any time to select the year of taxation he will average with the previous four years, provided those previous four years have not been used in any other block.

Mr. FULTON: Let us say that a fisherman or a farmer decides in 1948 that he is going to average over the next five years.

Mr. JACKETT: He does not elect until the fifth year.

Mr. FULTON: He can start now and average back to 1943.

Hon. Mr. ABBOTT: 1946.

Mr. FULTON: He goes from 1946 to 1951, and he goes in 1949 and averages from 1946 to 1949 and then he averages from 1946 to 1950.

Mr. EATON: No. In 1949 he can elect to have the year 1949 averaged with 1948, 1947 and 1946, but he cannot include a year earlier than 1946.

Mr. FULTON: In 1950 he can do the five years. Say he wanted to average with 1946, 1947, 1948 and 1949?

Mr. EATON: Not if he has used those years in any other block.

Hon. Mr. ABBOTT: He must be taking it for the first time.

Mr. EATON: He can have 1950 averaged with 1949, 1948, 1947 and 1946.

Mr. JAENICKE: He must take 1946; he cannot leave one out?

Mr. EATON: He has the option in the first instance of taking four years; subsequently he may not take less than five.

Mr. FULTON: In 1951 he starts all over again he has to wait until 1955 before he can average?

Mr. EATON: Correct.

Hon. Mr. ABBOTT: With the privilege of carrying the losses backward or forward.

Mr. ISNOR: Is there any improvement on the three-year period?

Hon. Mr. ABBOTT: I am informed by those who know that there is quite a substantial improvement, but not having the privilege of average myself I cannot say. I think it would be more advantageous to average over five years than to have the three-year moving average.

Mr. FRASER: How many farmers understand this?

Hon. Mr. ABBOTT: They will learn.

Mr. FRASER: It will take them a while, and I hope they are not penalized.

Hon. Mr. ABBOTT: There is no question of penalization. I say this is a special provision which applies only to farmers and fishermen. They can have the same treatment as the rest of the taxpayers if they find that simpler. Presumably they would not avail themselves of this unless it has a greater advantage. For a farmer I think it is an advantageous thing for them to do.

Mr. FRASER: The farmer has not had much education on these matters, and I was wondering if it would not be possible for one of the departmental heads to get a bunch of farmers together and explain it to them.

Mr. JAENICKE: Have the Canadian Federation of Agriculture made any representations in this respect?

Hon. Mr. ABBOTT: I do not recall whether they have made any representations recently in this respect. In the House honourable members of the committee will recall we were persistently urged to establish the five-year average.

Mr. FULTON: A moving five-year average.

Hon. Mr. ABBOTT: Oh, that would be something.

Mr. FULTON: You gave a moving three-year average first.

Hon. Mr. ABBOTT: It was the equivalent of four years.

Mr. FULTON: All you have given is the privilege of averaging once every five years.

Hon. Mr. ABBOTT: The average is bound to be a five-year average whether it is a moving average or otherwise. You have to keep reopening returns, and the so-called block system, I am told, is about the only way that can be effectively worked without introducing complications which even the ignorant farmers Mr. Fraser talks about would find it difficult to understand. I do not think they are really as ignorant as we pretend they are.

Mr. FRASER: They are not ignorant, but this is hard for members of parliament to understand.

Hon. Mr. ABBOTT: Of course it is. This is a technical question. To average a thing like that is difficult. But it is attempting to spread an income over a five-year period rather than a twelve-month period. One criticism of income tax law is that the twelve-month period is not a fair test of a person's earnings, particularly where you are in a risky business, and that is now offset to a considerable extent by the privilege of carrying losses backwards or forwards in the case of fishermen and farmers and the five-year averaging.

Mr. MACDONNELL: Am I correct in understanding that the moving average is in fact a feature of certain taxation systems? Are they used in England? I am not speaking of farmers, I am speaking of corporations.

Mr. EATON: I believe at one time they had an averaging system in Great Britain, but my memory is that they gave it up in 1926.

Mr. MACDONNELL: Am I to take it that the moving average is regarded by taxation authorities as impossible, because it seems to me that this block of five years, if it is the only way, is a great advantage.

Hon. Mr. ABBOTT: I am told it is if you combine with it the privilege which is given under our Act to carry losses backwards and forwards. There are the two things in there.

Mr. MACDONNELL: As I understand it now they work in periods of five years and nothing happens until the end of the five years and then you can have an accounting with the department and get a refund, or the opposite, I suppose.

The CHAIRMAN: No, it could not be the opposite.

Mr. MACDONNELL: All right, not the opposite; that only happens every five years, and now I want to be sure that the alternative does not need to be looked at. If your men have studied the matter and are satisfied I am not going to set up my opinion against theirs, but I would like to know if that is a final view.

Hon. Mr. ABBOTT: All I can say in answer to you is that the officials, both of my department and the Department of National Revenue and of Justice have spent weeks working on this thing. At one time they thought it looked as though it was almost insoluble, but I said nothing could be insoluble, and finally this has been evolved. It is due to the combination of the giving of the privilege of carrying over losses and averaging income. I will repeat again the farmer has the privilege of carrying losses backwards and forwards and at a given point may also take an average over a period.

Mr. MACDONNELL: What do you mean by carrying losses backwards and forwards? Give me an illustration. Perhaps Mr. Eaton might explain it.

Mr. EATON: The technique?

Mr. MACDONNELL: It was explained a moment ago. Perhaps other people understand it.

Mr. EATON: The taxpayer may have an income in one year and a loss in the next—

Mr. BREITHAUP: Does he pay income tax on the first year?

Mr. EATON: Yes. The next year he has a loss. He may in that second year have that loss apply to wipe out the income of the previous year and get a refund. That is open to all taxpayers in business. If the previous year's income is not large enough to absorb the whole of that loss he then may apply it against future income for three years afterward so that he has in effect a five year period in which if there is a loss it may be applied against a refund.

Mr. BREITHAUP: I think that is about the best plan that can be worked out. As far as the farmer knowing about it, I asked a question of the Minister of National Revenue in the House on the matter, and he explained that the farmers had in their possession some 700,000 books in which the explanation is carried.

Mr. MARQUIS: At the end of the five year period what is the method of electing the averaging system? Will there be a form or some document upon which a farmer or fishermen can elect?

Mr. GAVSIE: There will be a form.

Hon. Mr. ABBOTT: If I may add a word, the five year averaging provision is new. It is coming in this section for the first time and I think the Department of National Revenue will have to issue an appropriate amendment to their farmers' income tax guide and prepare new forms to cover the question.

Mr. MARQUIS: I have only one other question on the same point. Supposing the farmer does not elect in 1951, he may elect in 1952 for the four years before 1952?

Hon. Mr. ABBOTT: Yes.

Mr. PINARD: I see the section clearly says returns must be filed as required. If the farmer files his return late does he lose the benefit of this averaging system? What is the policy of the department in that connection?

Mr. JACKETT: The time for filing the return is of course fixed by the Act, but there is another section giving ministerial discretion. The minister has the power to extend the time for filing. The wording you refer to was phrased so that it would be possible for the minister in a proper case to extend the time for filing those returns.

Mr. FULTON: May I ask if it is the intention to incorporate an application form with the farmer's income tax form? The application form will then always be available to the farmer without special request.

Hon. Mr. ABBOTT: I am told no decision has been made on that but perhaps it might be the desirable method.

Mr. FULTON: I think it should be incorporated so that it will always be there at the time the return is being made.

Hon. Mr. ABBOTT: Probably it would be a simple matter to do that.

Mr. HARKNESS: I have been trying to ask a question for fifteen minutes. In any one of the years in the block which the farmer is going to take as an averaging period, is he required to put in his income tax return on a cash basis, which is the usual thing for farmers' income tax returns?

Mr. GAVSIE: He follows the regular procedure and if he is on a cash basis he continues on a cash basis.

The CHAIRMAN: If he is on an accrual basis he continues on that basis?

Mr. HARKNESS: How does he get on an accrual basis if he is not on it?

Mr. GAVSIE: With the approval of the department.

Mr. JACKETT: Section 14, subsection (1). He must have the concurrence of the Minister to change the method of computing his income.

Mr. HARKNESS: The point I am getting at is the case of a farmer in this situation. I brought this matter up in the House a few days ago and I spoke to Dr. Eaton about it afterwards. Take the case of a farmer who last year thought he was going to make a little money by feeding some steers and he went to the bank and borrowed \$15,000 with which to buy the steers and the feed and so forth. He sells these steers in 1948 for \$17,000 and he made \$2,000 on the deal. Owing to the way he is forced to make up his income tax return on a cash basis he is forced to show income of \$17,000 but actually he has only made \$2,000. The way in which he must make up his returns forces him to show income of \$17,000.

Mr. BRADETTE: Surely that is not so in the case of bank loans?

Mr. HARKNESS: Yes, everything he sells is income.

The CHAIRMAN: He deducts the cost.

Mr. HARKNESS: He does not.

Mr. FULTON: I suggest the basic herd principle enters into it. The number of animals purchased in that way would be set up as a basic herd and when the sale was made it would no longer be regarded as income.

Mr. HARKNESS: This is not a basic herd. It is the case of purchase of cattle for feeding. It is the same thing as a storekeeper buying oats to resell.

The CHAIRMAN: Mr. Gavsie will take the floor.

Mr. GAVSIE: In the example which you gave he would have charged the cost and all the expenses he incurred in acquiring those animals in the previous year and he probably would have had a loss in that year, so the next year while he would have \$17,000 income the amount that he expended during the previous year could be offset against that, if he did not have enough income in the previous year to take care of his expenses.

Mr. HARKNESS: How is it going to be offset, by carrying the income back?

Mr. GAVSIE: If he has a loss—

Mr. HARKNESS: If he has not filed an income tax return in this year 1947, which is the case of most farmers as you know—the majority of farmers have not filed income tax returns up to date—what is going to happen to the fellow, and what is the situation.

Hon. Mr. McCANN: He will file a return for the back years and carry the loss forward.

Mr. HARKNESS: That is what I want to get at. Is he allowed in 1948, long after the income tax return is supposed to be filed for 1947 to file that return?

Mr. GAVSIE: There will be a penalty of course for late filing.

Mr. ISNOR: I wish to put this case to one of the experts in order to clear my mind. Starting with 1946 a farmer or a fisherman shows a deficit; in 1947 he shows a deficit; in 1948 he shows a deficit; in 1949 he shows a fairly good surplus; in 1950 he shows a surplus. He finds that the first surplus and the last two deficits just about balance. Is he allowed to say I am not going to elect the first year because it is of no use to me? Can he come forward and elect 1947 or 1948 or 1949 and so on instead of 1946?

Mr. GAVSIE: Yes. He can wait until 1951 when he had another income sufficient to absorb the two previous losses in order to get the greatest benefit from the series.

Mr. ISNOR: That would apply in five years?

Mr. GAVSIE: Yes.

Mr. JARMICK: Suppose a farmer has a surplus of \$3,000 and he pays tax on it; the next year he has a loss of \$1,000; the third year he has a profit of

\$2,000; the fourth year he has a profit of \$4,000; and the last year he has a loss again of \$1,000. That amounts to \$9,000 in the five years with a loss of \$2,000, and his average would be \$1,400 per year. What would happen in that case?

Mr. EATON: The first year you say was plus \$3,000?

Mr. JAENICKE: Yes.

Mr. EATON: The second year is a minus of \$1,000 and right there he can carry the \$1,000 back again to the \$3,000, reducing it to \$2,000 and he can get a refund.

Mr. JAENICKE: I see.

Mr. EATON: That leaves him with a taxable income of \$2,000 in the second year. The next year he has a plus of \$2,000, the next year a plus of \$4,000, and the next year he has a minus of \$1,000. He can carry that last \$1,000 back again to the \$4,000 reducing it to \$3,000 for taxable purposes and again he will receive a refund. Then he has standing for averaging, \$2,000, nil, \$2,000, \$3,000, and nil. He adds those figures up, divides by 5 and that is the average income for the period.

Mr. JAENICKE: His average income would be \$1,400. Now supposing that is not taxable, he gets back all the tax that he has paid.

Mr. EATON: Yes.

The CHAIRMAN: Shall the section carry?

Carried.

Mr. FRASER: With respect to section 40, subsection (b), in the case of a person who has died—

Mr. CLEAVER: Order, gentlemen, it is not fair to the officials.

Mr. FRASER: In the case of a person who has died without making the return, by his legal representatives within six months from the day of death the interest starts at 8 per cent on the day after death. I do not see it in the book here but it is on the back of the income tax receipt. Such a requirement does not give the executors or trustees time to do anything. I am thinking for instance of the portion due on say 1942 income tax that was not forgiven.

Mr. JACKETT: I can safely say that there is no provision here requiring returns after death apart from the six months provision.

Mr. FRASER: I brought the matter up in the House of Commons some years ago and it is due the day after death at 8 per cent.

The CHAIRMAN: That is for the part accrued down to the date of death.

Mr. FRASER: Yes.

Hon. Mr. McCANN: It is due immediately but not payable for six months.

Mr. FRASER: It is due the day after and starts the day after at 8 per cent. What I am getting at is there should be leeway of six months in order to allow the executors or trustees a chance to straighten out the estate and find out what the amount is. They would probably like to pay it up immediately after they have had a chance to go over the estate.

Mr. BREITHAUP: Your point is that the time should be extended.

Mr. FRASER: Yes.

The CHAIRMAN: I think Mr. Fraser will get a more satisfactory answer if the departmental officials have a chance. Shall the section carry subject to the question?

Carried.

Shall section 41 carry?

Carried.

Section 42?

Mr. MACDONNELL: Subsection (4) (b)—the minister may at any time assess tax, interest or penalties and may within six years from the day of an original assessment in any other case reassess or make additional assessment—if there is no fraud they have got six years which seems to me an awful long time to have a thing hanging over a taxpayer. Is that six years really necessary where it is not the individual's mistake?

The CHAIRMAN: Does it not say "has made any misrepresentation or committed any fraud"?

Mr. JAENICKE: There is no limit in that case.

Mr. MACDONNELL: I am not suggesting there should be but what I am saying is that where the taxpayer is not at fault the department can still come back after six years and say it made a mistake.

Mr. GAVSIE: It is not the case so much of a mistake; it is the case of something coming to light. I do not have anything to do with the administration of assessments but I am told it is considered to be not an unreasonable period. Experience has shown that that time is necessary.

Mr. MACDONNELL: If there is some new fact coming to light you might safeguard yourself against that but this means you fellows just have six years space of time where you really do not need to worry.

Mr. GAVSIE: That has been the provision which has existed for quite some time.

Mr. MACDONNELL: I imagine with your great amount of work during the war it was necessary but is it necessary now?

Mr. GAVSIE: It is still necessary.

Mr. JAENICKE: How far are they behind in their assessments now? I have just had my 1945 assessment confirmed a few days ago.

The CHAIRMAN: I am told that it is only a matter of three or four years ago that any time limit was inserted at all. This subsection is quite often used by people who apply to have their assessment reopened.

Mr. JACKMAN: No, how soon is the taxpayer closed off?

Hon. Mr. McCANN: One month after assessment.

The CHAIRMAN: This gives power to the minister to reopen. I am told it is more often used by the taxpayer than by the department.

Mr. RINFRET: Do you mean to say, using this section here, the minister can give me permission to reopen my assessment?

The CHAIRMAN: Yes.

Mr. ISNOR: I wonder if you are correct because I have a concrete case. I know a chaplain who served overseas. On return to Canada he paid tax for a year while in Canada and for that reason did not enjoy what was in fact his period of exemption. He later learned that he was entitled to the exemption period and he made application for a refund. He did not make application until a year after his return had been assessed and he was informed in writing that the case could not be reopened twelve months after the case had been assessed.

The CHAIRMAN: Did he ask for a refund or for a reassessment.

Mr. ISNOR: No, he asked for a refund of what he considered to be an overpayment on his part.

The CHAIRMAN: Did he ask for an assessment or a refund? Obviously he would have to get the minister's consent for a reassessment before he could get the refund.

Mr. ISNOR: I am not in the position to say that but I think he had sense enough to ask for permission to make a new return? Could he get a refund in a case of that kind?

The CHAIRMAN: Is there power in a case of that kind to make a reassessment, Dr. McCann?

Hon. Mr. McCANN: He could not get a refund without a reassessment.

The CHAIRMAN: Have you power to make a reassessment?

Mr. GAVSIE: In certain cases the minister can make a reassessment.

The CHAIRMAN: I would say the power was there.

Mr. GAVSIE: Yes.

The CHAIRMAN: The power is there to have a reassessment followed by a refund but it is my way of ministerial discretion and a good reason would have to be shown.

Mr. ISNOR: In view of that answer I shall be able to write to the gentleman saying that he should make application for reassessment.

Mr. RINFRET: It will not be granted.

Mr. ISNOR: Why will it not?

Mr. RINFRET: It will not be allowed.

Mr. ISNOR: The chairman has just told me that it would be. I would imagine if he is given a reassessment very naturally a refund would be made.

Mr. RINFRET: It depends on the circumstances.

Hon. Mr. McCANN: On what basis did he ask for a refund?

Mr. ISNOR: He paid tax while in uniform.

Hon. Mr. McCANN: For what unit was he a chaplain?

Mr. ISNOR: I can give you the name.

Hon. Mr. McCANN: If he was a firefighter chaplain it is a different case.

Mr. ISNOR: No.

Hon. Mr. McCANN: They only received a deduction of one-fifth of their pay and allowances where men in the actual forces were not taxable at all overseas.

Mr. ISNOR: I will put it in black and white.

Mr. RINFRET: Mr. Gavsie, could the word "reassess" in line 29 mean there might be a reduction in the assessment?

Mr. GAVSIE: If there was a reassessment it might have the effect of reducing the liability.

Mr. ISNOR: With respect to 42 (4) (b) which says "within six years from the day of an original assessment in any other case"—what is the meaning of the words "original assessment"? Is it from the time of the assessment made by the income tax people, which might be three years after filing, in which case there would be a total of nine years?

Hon. Mr. ABBOTT: That I think is correct. The time is not related to the date of filing the return, but it dates from the time of the assessment by the department.

Mr. ISNOR: I point it out because a businessman may make a return and through no fault of his, but because of overwork of the officials of the department in 1944 or 1945, he has not been assessed until three years after filing. Six years later they may come back and say he made an incorrect return nine years before, and they will review the case.

Hon. Mr. ABBOTT: There would have to be misrepresentation or the commission of fraud.

Some MEMBERS: No, no, no.

Hon. Mr. ABBOTT: I thought you were talking about another instance. I would prefer that we leave this matter now. As the committee has been told, until a short time ago the thing was wide open and you could go back any length of time.

Mr. ISNOR: I just wanted to bring it to your attention because I think that nine years for instance is too long.

Hon. Mr. ABBOTT: The average time I am told has now been reduced to two years. In the case of some corporations with complicated returns it may be longer.

Mr. MACDONNELL: Has the minister considered whether it would be fair to make the six years run from the time of filing the return?

Hon. Mr. ABBOTT: I would hate to make a snap decision on that. It has not been considered. When this was put in three or four years ago it was felt that this was a reasonable position. It has not been reconsidered. I am willing to give assurance that we will look at that carefully before the next budget is brought in. This is not effective until January, 1949, and perhaps the committee would be willing to leave it at that. I will consider it very carefully.

Mr. MACDONNELL: Might I raise one other question which has already been mentioned although I think it has not been addressed to the minister, the question of interest during all this time.

Hon. Mr. ABBOTT: It only runs for 20 months. Under another section of the Act interest ceases to run if the assessment has not been made within 20 months.

Hon. Mr. McCANN: Then after the assessment is made a month after the assessment interest continues if it is not paid.

Hon. Mr. ABBOTT: There has been a lot of talk about this business of interest, but it only runs for 20 months. If the department has not assessed the return in 20 months it ceases.

Mr. FULTON: In connection with what the minister has said about the matter not having been considered before I would suggest that he read the submission made by the Canadian Chartered Accountants Association which mentions this specific problem under section 42, and where a suggestion is made in specific terms that the limitation run from the date of the taxpayer filing the return.

Hon. Mr. ABBOTT: What I meant was no special consideration.

Mr. FULTON: What I am saying now is that in considering it I think they put forward a very clear argument and I suggest that be considered.

The CHAIRMAN: Section 43.

Mr. JACKMAN: May I suggest that in the case of the omission of any investment income which is not wilful this is a very difficult provision to put in. I would therefore suggest that in line 45 after the word "discovered" the words "to be wilful" should be inserted so that it would read "subsequently discovered to be wilful, the taxpayer may be deemed to have received double the amount so omitted from the return", etc.

Hon. Mr. ABBOTT: The difficulty of that, of course, is it is very hard to look into the mind of the man who omitted to report the income and prove that it was wilfully omitted. I would think that it would be more appropriate to leave the burden on the taxpayer to show that it was innocent, and that the minister should not impose this provision. This is permissive. It is not mandatory.

Mr. JACKMAN: You cannot bring all these cases up to headquarters. You have to have them settled locally, and the local man is not going to take any chance of doing something which may not meet with the approbation of his superiors at a later date. I am thinking of one case that came to my attention

recently of a man who omitted \$700 of investment income in a fair sized return because he happened to have some securities hypothecated at the bank, and the securities were in the name of the bank, that particular block he had, and two or three years later the omission was discovered. He has no objection to paying the tax. It was purely innocent, but it would be a hardship if he had not only to pay the interest, which is a pretty high rate now, but also in the judgment of the local assessor to pay double the amount of tax on it. As a matter of fact in that particular case I think it would have meant he would have had no income from the \$700.

Hon. Mr. ABBOTT: I have seen some cases of that kind myself. I have had one or two of my own where I have inadvertently left out a small amount of interest on some little victory bonds which I had forgotten I had, and my assessment has been revised, but I never had that penalty imposed. It has always been treated as an innocent omission. The committee might note that was before I occupied any official position.

Mr. MACDONNELL: We are in the opposition.

Hon. Mr. McCANN: That is the way it operates. You make a voluntary amendment of your return. This reads, "which is, on inquiry by or on behalf of the minister or on information received from a person other than the taxpayer"—

The CHAIRMAN: A voluntary correction is not penalized.

Hon. Mr. McCANN: A man makes a voluntary amendment of his return, and he is not penalized.

Mr. JACKMAN: In the case I mentioned it would have never been discovered by the taxpayer. Unless you have a double entry system of books you would never know. I think it is a very stringent provision. I think the minister can tell pretty well whether a case is wilful nondisclosure or not.

Hon. Mr. ABBOTT: He may be able to tell but the taxpayer may not agree with him. That is the trouble. It is permissive with the minister. If the minister is satisfied or his officials are satisfied it is not wilful and the return is made voluntarily—

The CHAIRMAN: This is not a new section. Does any member of the committee know of a case where it has been improperly imposed? If not, shall we call the section carried?

Mr. JAENICKE: What happened to this \$700 matter of Mr. Jackman's?

Mr. JACKMAN: What happened? They made the regular assessment plus interest.

The CHAIRMAN: Section 44.

Mr. FULTON: I have been trying to catch your attention since the crossfire started. It seems to be logical under section 43 that if the minister determines or decides to charge tax on double the income it amounts to a determination that the taxpayer has fraudulently or wilfully or intentionally concealed this income. Why not subject the taxpayer to the full penalty for fraudulent returns?

Hon. Mr. ABBOTT: There is a penalty of double tax.

Mr. FULTON: It amounts to a decision that it has been wilfully concealed.

Hon. Mr. McCANN: If he is not satisfied he can appeal it and prove it was not wilfully concealed.

Mr. MACDONNELL: Is it not true as Mr. Fulton says, that if this discretion is exercised it does amount to a decision it was wilfully concealed, and if so why not say so?

Mr. FULTON: Why not subject him to the full penalty for fraudulent returns?

Mr. MACDONNELL: Otherwise if it is done this way a man is left under that imputation, and I think it might very well be set out right here.

Mr. BENIDICKSON: I do not think this altogether means that you can assume it is wilfully concealed. I think it means that a person who is receiving that amount of income should be sensible enough to keep books.

The CHAIRMAN: Do you not think the very fact that section is there will encourage people to voluntarily come forward and correct their own error? The section has been in force. It is not a new section. If any member of the committee knows of any hardship under the section then let him say so. Why discuss the hypothetical cases that never arise? Is section 43 carried?

Carried.

Section 44.

Mr. HARKNESS: On section 44 what is the situation now with a farmer who has a hired man? Is he required—

Hon. Mr. ABBOTT: He is lucky—

Mr. HARKNESS: Is he required to withhold whatever he thinks this fellow's income tax might be? Considering that in most cases he has a man hired for a very indeterminate period, a month, or two or three or four months, what is his position?

Hon. Mr. ABBOTT: I think perhaps Mr. Gavsie might answer that.

Mr. GAVSIE: As long as he has an employee the farmer is the same as every other employer. He would be required to withhold the amount.

Mr. HARKNESS: I am talking about a farmer who has a hired man for a month, we will say. The hired man is a single man and he pays him \$100 a month. That is what we have to pay in my part of the country at the moment. Is he supposed to deduct something from the \$100 a month?

Mr. GAVSIE: Yes.

Mr. HARKNESS: Nobody does it. If you did it you would not have the man. The man would not stay. He would go off to some place else. I have had two men myself and I have not deducted in the case of either of them.

Hon. Mr. ABBOTT: Avail yourself of your parliamentary privilege.

Mr. HARKNESS: If I had attempted to deduct from them the men would not have stayed.

The CHAIRMAN: Have you been hurt under this if the department have been generous on it?

Mr. HARKNESS: I do not know whether or not I will be hurt yet. What I am trying to get at is if that is the situation when a farmer hires a man for a month or two months, or whatever the case may be in the spring or the fall of the year, which is the usual thing, and he is supposed to deduct that from him the thing is ridiculous.

Hon. Mr. ABBOTT: The farmer is under the same legal obligation as any other employer.

Mr. HARKNESS: I would propose an amendment there to the effect that it should be every person other than a farmer.

Mr. BRADETTE: Why not say all workers and everybody else?

Mr. HARKNESS: As far as the farmer is concerned the thing is not workable.

The CHAIRMAN: I think you will find the department has been very lenient in regard to farmers in this connection. If you could draft a section that would be fair I would like to see it. I have argued this point until I am sick and tired, and my farmers are quite content with the way they are being treated under the present section. Why not leave well enough alone?

Mr. HARKNESS: I know a number of farmers who are not very happy about it.

The CHAIRMAN: They are not deducting it and they are not being assessed.

Hon. Mr. McCANN: Do you know any of them who are deducting?

Mr. HARKNESS: I know three men who went out of business because of the fact they could not keep men through trying to deduct it.

The CHAIRMAN: Do you know thousands of farmers who are not deducting?

Mr. HARKNESS: I do not know anybody who is deducting.

The CHAIRMAN: Carried.

Mr. HARKNESS: Just a minute; there is no use carrying it that way.

Mr. JAENICKE: Does that apply to farm labourers paid by the day?

Hon. Mr. ABBOTT: The position is that while farmers get some special privileges under the Income Tax Act they are not specially classified employers. We have a system of taxes whereby they are deducted at the source in the case of employees, and farmers are expected to obey the law and comply with the law the same as others. It may be impractical in some cases, I do not know, but I am personally very much against making too many special classes under income tax law. I think that should be stated and stated plainly.

Mr. MACDONNELL: I think the minister's statement cannot be argued against but on the other hand does the minister not think it is a great pity to have sections in the law which are nugatory?

Hon. Mr. ABBOTT: Perhaps the law should be more strictly enforced. That is not my department. I do not know whether members are suggesting that or not.

Mr. HARKNESS: I would submit when there is something in the law which is of no effect and which nobody pays any attention to and there is nothing done about it, that it is far better to have it out of the law. It just encourages law breaking.

Hon. Mr. ABBOTT: That is a pretty defeatist argument.

Mr. HARKNESS: No, it is not. It encourages law breaking if it is in there.

Mr. LESAGE: They do not know the law anyway.

Mr. BRADETTE: Most farmers in my constituency know the law. They consider themselves to be good Canadians and they want to play the game.

Mr. GOUR: I do believe the farmers know the law just as well as lawyers. This law is followed by the farmers and they are willing to do that if there are any men to work on the farms because there is too much prosperity in the country and manufacturers are paying big wages. Leave it as it is now. Do not destroy the farmers. The farmers are willing to pay what they should pay.

The CHAIRMAN: Section 45.

Hon. Mr. ABBOTT: I have an amendment to section 45. This is the section which allows farmers to not estimate and pay their tax in advance as a good many other taxpayers are obliged to do, and we give similar treatment to fishermen in these matters. I have the amendment here, that the clause be revised by inserting the words "or fishing" after the word "farming" in the second line. Perhaps someone would be kind enough to move that.

Mr. ISNOR: I would be very pleased to move that.

The CHAIRMAN: All those in favour of the amendment?

Carried.

Section 46.

Mr. FRASER: Under this section it is an amount equal to one-quarter of the tax submitted by him. It means one-quarter of the tax has to be paid on March 31st, June 30th, September 30th and December 31st. In that case the forms that the department have out at the present time will have to be changed because on the 31st of March you pay 20 per cent, on June 30th, 25 per cent, on September 30th, 25 per cent, and on December 31st, 30 per cent. There is another thing I want to say. On these quarterly forms under which you pay your income tax you send it to the income tax office and you may send money, a cheque or even cash. All they do at the income tax office is to put the initials "G.K.F." or something else on it. I have had some of the accountants speak to me and suggest there ought to be room on that for the income tax man to put a rubber stamp and then the initials.

Hon. Mr. McCANN: In addition to that we send you a receipt.

Mr. FRASER: They do now.

Hon. Mr. McCANN: They always have.

Mr. FRASER: No.

Hon. Mr. McCANN: They send you an official receipt and they send you back the form which you sent in. It is checked there and you have a duplicate, and the only time you surrender it is on your last payment.

The CHAIRMAN: Carried.

Mr. FULTON: Is this section new?

Hon. Mr. ABBOTT: No, it is the same section. The only change is that the old law provides that the first instalment should be 20 per cent, the next two instalments 25 per cent, and the last instalment 30 per cent. Now they are equal quarterly instalments of 25 per cent. As Mr. Fraser has pointed out it will perhaps need a change in the forms for the next year.

Mr. FULTON: I am quite certain that a lot of people do not know anything about the obligation on them to pay quarterly.

Hon. Mr. ABBOTT: As I say it has been the law for a good many years. It has been in the law for a long time. I used to have to make my quarterly payments.

Mr. FULTON: Frankly speaking I thought it was optional.

Hon. Mr. ABBOTT: Oh good gracious, no. Originally it was optional but it has not been that for five or six years I believe.

Mr. TIMMINS: What is the penalty in case a return is not made in accordance with these quarterly payments? What is the penalty?

Hon. Mr. ABBOTT: The interest penalty.

Mr. NIXON: What is that?

Hon. Mr. ABBOTT: Six per cent in the future.

Mr. FRASER: This section does not come into effect until the 1949 tax?

Hon. Mr. ABBOTT: That is correct, the 1949 taxation period. Quarterly payments are now required under the law, but the initial payment is 20 per cent, the next two payments are 25 per cent, and the final payment is 30 per cent.

The CHAIRMAN: Section 47. Carried.

Carried.

Section 48. Carried.

Carried.

Section 49.

Mr. JACKMAN: Is section 49 the one under which we should discuss penalties? Perhaps section 51 might be a better section.

Hon. Mr. ABBOTT: Section 51 is the penalty section.

The CHAIRMAN: Is section 50 carried?

Mr. LESAGE: Under section 51 a person who has failed to make a return—

Mr. BRADETTE: First of all on section 50 the penalty there was increased from 7 per cent to 8 per cent?

Hon. Mr. ABBOTT: That was done in the budget this year.

Mr. BRADETTE: Personally I really believe that is one place where it should have remained at the old rate or perhaps a lower rate. Personally I know in my own constituency there is not very much malingering in making their returns or trying to pay what they owe to the government, and that kind of penalty seems to go a long way. First of all there is the 8 per cent—

Hon. Mr. ABBOTT: Six per cent only.

Mr. BRADETTE: It is 8 per cent here.

Hon. Mr. ABBOTT: It is only 8 per cent from the time they have been notified of the assessment and they have 30 days to pay it in.

Mr. BRADETTE: How much was it?

Hon. Mr. ABBOTT: It used to be 4 and 7, and it is now 6 and 8.

Mr. BRADETTE: I believe that is a wrong principle, that the majority of the Canadian people cannot agree with that. We all agree there should be some penalty but let us take a business firm for one moment. If they tried to do that what would happen? I know the government is not a business institution, but at the same time they are really dealing with human beings and in many cases innocent people have been caught partly by negligence, sometimes by circumstances and sometimes due to the under-staffing of the department. There are many instances where people have received notices of owing quite a large sum of money after three or four years. Immediately they are faced with a very great penalty.

Hon. Mr. ABBOTT: Interest only runs for 20 months.

Mr. BRADETTE: We all realize the amount of work that the department has had to do, and I must compliment them that it was at all possible to do what they have done, but personally I believe I am voicing the sentiment of my own constituency which I represent that they highly resent that increase in these penalties. They see no reason for that. I know that in small businesses or larger corporations if they ever tried to apply that principle on defalcations, or tried to penalize in that fashion on collection of accounts immediately the people would voice a very strong opinion against it.

Hon. Mr. ABBOTT: The difficulty has been this. I do not know what the situation is in your community, but a rate of 4 per cent is a more favourable rate than most business men can borrow without any security in the commercial market. I know in my own community of Montreal rather great advantage has been taken of that low 4 per cent rate. There have been a good many cases where the taxpayer has substantially underpaid, the taxpayer knowing that it would be physically impossible for the assessors to get at the return for perhaps 18 months or two years. They have borrowed money from the government at a very favourable rate of interest, very much more favourable than they could get from their own bank. When one man does not pay his tax the money has to be found somewhere elsewhere. I reasoned this out in the House, as the committee knows, and I do not think that a 6 per cent rate for 20 months and thereafter no interest is an undue penalty. It is about a one per cent higher rate than perhaps a good commercial risk could go out and borrow without special security. A lot of people go to the bank today, no doubt, and borrow at 5 per cent or even less, but if they borrow at less they have to put up victory bonds or something of that nature to secure it. This is to prevent people taking advantage of that position to borrow from the government at an exceptionally

low rate of interest. It used to be 6 per cent. It was reduced to 4 per cent a few years ago and unfortunately we found that the reduction just did not work, that people took advantage of it to borrow money at the lower rate. That is the reason that it was put into the law.

Mr. JAENICKE: That is only in cases where people do that intentionally. What about the thousands of cases where an honest mistake is made?

Hon. Mr. ABBOTT: Those are usually pretty small and the interest does not amount to a large figure. In the case of most business men an unintentional mistake on a large amount is rather rare. There may be careless mistakes. One of the ways in which it can be most readily effected is to charge expenses which the taxpayer knows perfectly well will probably not be allowed, but he tries for it anyway hoping he can get away with them and if he does not well, all right, the only penalty is 4 per cent interest, and he can use the money pretty advantageously at 4 per cent for a couple of years. That is the way it works out.

Mr. BRADETTE: There is no doubt that it has created hardships for a good many of what we may call small people. I am not speaking of large corporations, people of wealth or who receive big salaries and so on. There must be tens of thousands of cases throughout Canada that would actually suffer under that new regulation. Surely it is not intended to be so under the Act because after all there is not much malingering in these cases.

Hon. Mr. ABBOTT: I do not know what one takes as a small case. I suppose a small case would be the case of a man who had underpaid his tax by \$300. The interest on that would be \$18 a year. The maximum interest penalty that he could suffer would be \$20 odd because it only runs for a year and eight months. Therefore the interest might be between \$20 and \$30 on \$300.

Mr. MACDONNELL: That is a lot of money.

Hon. Mr. ABBOTT: Of course it is, but I cannot believe there is any burning hardship. The difference between the interest rates would be 2 per cent, or \$6 or \$7. That is about what it boils down to in the case of the \$300 underpayment. Frankly we are not worried about these small payments of that kind. They do not amount to anything. What we are concerned about are the larger payments.

Mr. MACDONNELL: What about the 8 per cent?

Hon. Mr. ABBOTT: There a man has an opportunity to pay his tax. He has got 30 days at the old rate after he has been assessed. He has probably had it interest free for perhaps a year. He may yet have it interest free for a year. Then he has got another 30 days and then if he does not pay it he is charged 8 per cent.

The CHAIRMAN: Mr. Isnor, you wanted to say something?

Mr. ISNOR: I was going to support the minister on general principles. We could not adopt the plan suggested of leaving the government without security whatsoever. If we go to the bank we have to put up security to satisfy the bank. I think 6 per cent is all right. I think Mr. Bradette has a point there. The general effect of 8 per cent charged with interest to the Canadian people does not help the general picture. I think we should consider that. I do not think it amounts to very much. I would be inclined to favour that 8 per cent being reduced. I would favour, I think, 5 per cent and 7 per cent at the very most. The fact of the matter is I questioned at the time as to whether it was good business for the government to put in their Bank Act a 6 per cent legal rate and then for the Income Tax Department and other branches of the government to come along and say that they are going to charge 8 per cent.

Hon. Mr. ABBOTT: I would not have any objection to leaving the present rate of 7 per cent for taxes which are overdue beyond thirty days after assessment; but I think that a 6 per cent rate is a minimum rate to discourage the

type of practice that I have been indicating of people borrowing money from the government when they ought to borrow in the ordinary commercial channels if they have not got money to pay their bills.

Mr. JACKMAN: May I ask if the government has lost any considerable amount of revenue by reason of the fact these underpayments of taxes have been subsequently uncollectable?

The CHAIRMAN: Mr. Bradette moves that the rate be reduced from 8 per cent to 7 per cent; all those in favour of reducing the rate from 8 per cent to 7 per cent in subsection (1) (b) please indicate?

Hon. Mr. ABBOTT: I think, perhaps, Dr. McCann had better move that.

The CHAIRMAN: He is not a member of this committee.

Hon. Mr. ABBOTT: I will move it myself.

Mr. MARQUIS: It is a tax; it is not a penalty.

Carried.

The CHAIRMAN: Section 51:

Mr. FRAZER: Will you have somebody explain (a) of subsection (3): "of 1 per cent of the tax payable under this part but, whether he is taxable or not, not less than \$25 or more than \$100"?

The CHAIRMAN: That is when he has been definitely required by notice to make the return and fails to comply with the request.

Hon. Mr. ABBOTT: "But" is the relevant word; "but, whether he is taxable or not, not less than \$25 or more than \$100, or . . ."

Mr. FRAZER: He pays that whether he is taxable or not?

Hon. Mr. ABBOTT: If he failed to file a return on the prescribed form as required by section 40.

Mr. FRAZER: That would apply to individuals' eligible income, would it?

Mr. JACKETT: Individuals are not required to file returns unless the minister requires it.

Mr. MACDONNELL: If there is no tax payable how can he pay anything?

The CHAIRMAN: Not less than \$25.

Mr. MACDONNELL: No. I do not think that covers that.

Hon. Mr. ABBOTT: The Assistant Deputy Minister of Justice, who is an expert draftsman, tells me it does.

Mr. LESAGE: Section 51 reads: "Every person who has failed to make a return as and when required by subsection (1) of section 40 is liable to a penalty of . . ." and section 119 says: "Every person who has failed to file a return as and when required by or under this Act or a regulation is guilty of an offence and, in addition to any penalty otherwise provided, liable on summary conviction to a fine of not less than \$25 for each day of default." The penalty goes as high as \$10,000. That is a double penalty. That is a penalty which is imposed on a man who has already been fined, and it is contrary, I submit respectfully, to the basic principles of our law. When a man has been fined in court he is acquitted and nothing can be done against him according to British principles of law. How can the minister two or three months afterwards come and say, "All right, you have been fined in court, but that is not sufficient, you are going to pay a penalty," and he fines him a second time. I say that is against every principle of our law. I have a clear case. On the 13th of January, 1948, a man was prosecuted—as a matter of fact, two of my constituents were prosecuted for having failed to file a return. It was not T-1, it was T-4. They plead guilty and they were fined on the 28th of January. They filed their return and they paid all they owed. It was money they were supposed to have collected from their employees and which they had not and they had to pay it

out of their own pockets. On the 12th of April they received a penalty assessment notice for \$10. I think that is against every basic principle of our law, and an amendment should be made to section 51 saying that this does not apply when a man has been prosecuted under section 119 and the following

Mr. MARQUIS: Mr. Chairman, I wish to add one word. In that particular case to which Mr. Lesage has referred, when someone is prosecuted for having failed to make his return and pays a fine and he files his return immediately, I submit he should not be forced to pay a penalty afterwards. If he does not file his return I understand he may be asked to pay a penalty, but he should not be faced with a double sentence for the same offence.

Hon. Mr. ABBOTT: There is, I think, what is described as a civil penalty and a criminal penalty.

Mr. GAVSIE: Practically all revenue laws have a provision—as far as I am aware all revenue laws have a similar provision; that is where you may charge a person for having committed a criminal offence, a statutory criminal offence, and a provision for what is known as a civil penalty. That has been the practice all through revenue laws.

Mr. LESAGE: Is it true that under section 51 the minister has nothing to do but charge the penalty?

Hon. Mr. ABBOTT: Is there any discretion?

Mr. GAVSIE: Under subsection (3) he can waive it. Subsection (3) says: “. . . unless in the case of an individual the minister has waived it. . . .”

Mr. LESAGE: Under subsection (1) can the minister decide that he is not going to charge a penalty?

Hon. Mr. ABBOTT: It is mandatory. I think it is under subsection (1).

Mr. LESAGE: You think it is mandatory; well, if it is I think we should amend the section, because there is nothing more abusive than this section when somebody has already been convicted in court.

Hon. Mr. ABBOTT: Of course, there is always the power in the minister to ask for a remission under the Consolidated Revenue and Audit Act. That requires a special submission. That is only in special cases when the minister feels that it should not be collected and he is prepared to make a recommendation to Council that it should not be collected.

Mr. MARQUIS: But the occasions we have in mind are those where a man makes his return after a delay of a few days or a few months and he is obliged to pay a fine. We submit that he should not be called upon to pay another fine or pay another amount as an additional penalty.

Hon. Mr. ABBOTT: Is it not a fact that in most cases the only penalty that is exacted is what Mr. Gavsie has described as a civil penalty that is the \$5 or the 5 per cent of the tax; and it is only in rather flagrant cases that a matter is taken to the court and a complaint is laid? That has been my understanding of the practice, that it has only been in cases where it is felt there has been a deliberate attempt to get out of paying the tax liability. That I think is true.

Mr. LESAGE: He is prosecuted for having failed to make his return. He pleads guilty and files his return and he pays the fine.

Hon. Mr. McCANN: He pleads guilty of not remitting the money.

Mr. LESAGE: No, I have a letter which says that is not the case. It is signed by Mr. McFarlane.

Hon. Mr. McCANN: What was the prosecution for?

Mr. LESAGE: The letter is in French, but I will translate it. “We acknowledge receipt of your letter of the 3rd of April, 1948. Please take notice that the fine paid by the above mentioned was imposed for a delay because he was late in filing his T-4 under section 41 and that the penalty assessment notice

for \$10 was issued according to section 77 for being late in producing the same declaration." What do you think of a man receiving this letter under the laws of our country?

Hon. Mr. ABBOTT: I am told there may be exceptional cases and that these so-called criminal proceedings are not taken until at least two or three written requests to file a return have been made. Mr. Scully, the deputy minister, tells me that a man gets three notices to file his return before any proceedings are taken.

Mr. LESAGE: All right; but he is not more guilty for that. When a man has been already convicted how can you go three months later and charge him \$10 as a penalty for the same offence?

Hon. Mr. ABBOTT: If he complied with one of the three written requests to file a return, as he is required to do under the law, he pays the penalty, but he pays no other penalty and he is not taken into court. It is only because there is presumably a deliberate refusal to comply with the provisions of the law when he has been notified to do so that the other section comes into effect. I have no practical experience in it myself. I am told that is the way it works.

Mr. LESAGE: Sir, you are a lawyer yourself, and I am sure you will admit that for ordinary people it is inconceivable that they should have to pay two fines for the same delay.

Hon. Mr. ABBOTT: One is a penalty in the nature of not filing a return; the other is paying the tax that is due—a semi-criminal penalty on a complaint made in court.

Mr. LESAGE: In French, sir, the words are the same, *amende et penalite*.

Hon. Mr. ABBOTT: There is always the case of the man condemned to pay civil damages and also condemned to pay a fine in a criminal cause.

Mr. LESAGE: That is different, sir, because the cause is not the same. I think, Mr. Abbott, you will agree that this is completely different.

Hon. Mr. ABBOTT: There is a difference.

Mr. MARQUIS: I think there is a misunderstanding of the point. Perhaps there are some cases where a man may be called to pay a penalty. Take the case of a farmer or a workman or a small business man who has failed to make his return before the end of April, and in the month of May or June he is prosecuted because he has not filed his return and he goes before a court at, say, Riviere du Loup, and the magistrate fines him an amount of \$25 for one day of delay and the magistrate tells him to file his return, and afterwards he is sentenced. I do not see how another amount could be asked of that man because he has not made his return in due time.

Mr. LESAGE: I am going to move an amendment.

Hon. Mr. McCANN: He is fined by the court for not filing, but when it comes into the income tax office he is not fined, he is penalized for not filing.

Hon. Mr. ABBOTT: Nobody can be really penalized here if he complies with the demand made to file a return.

Mr. LESAGE: Nobody will be convicted in court if he has done nothing, but once he has been convicted he has certain rights. That is a principle of law. I do not think that because this is the Department of National Revenue we should depart from the old principles of law which we have respected for so long.

Hon. Mr. ABBOTT: Perhaps we might let the matter stand and I will discuss it with the officials. The reason I suggest that course is that I do not care now to change a section which has been in income tax law since its inception, and which I am told is in the American law and the British law, without giving it some more extended consideration than I have given it up to the present time.

Mr. LESAGE: At least I would like to have something to cover cases of abuse and hardship like the case I have mentioned. In that case they were prosecuted in court for being late and a penalty was imposed for the same thing.

Hon. Mr. ABBOTT: Suppose we let it stand and I will return to it this evening.

Mr. MARQUIS: I would move that the second penalty be removed and leave only the fine, because I think it is not a source of revenue; it is only a way of punishing somebody. I will move that if I am in order.

Mr. LESAGE: Yes, it is in order; there is no doubt about it.

Hon. Mr. ABBOTT: It may be in order, but I have yet to consider it to see if we can accept the amendment, to see if we can meet the demand. These are sections of long standing in the Act, and I do not wish to put them out on a snap amendment. I think the section should be allowed to stand.

Mr. BENIDICKSON: I think the minister should be able to give us his opinion while Mr. Lesage is present.

Hon. Mr. ABBOTT: We will not bring the section up until Mr. Marquis or Mr. Lesage are able to be here.

Mr. LESAGE: May I say this does not only apply to section 51, sir, it applies to other sections. There are penalties under another section, section 117, and there may be some others.

Mr. FULTON: If this section is going to be allowed to stand, there is another point that perhaps the minister could take up with the officials or explain it to me now, because it seems to me there is a degree of indefiniteness in subsection (2). Subsection (2) reads: "Every person who has failed to file a return as required by subsection (3) of section 40 is liable to a penalty of \$10 for each day of default but not exceeding \$50." If you turn to subsection 3 of section 40 you find that the provision is that every administrator of the property, business, etc., "of a person who has not filed a return for a taxation year as required by this section shall file a return in prescribed form of that person's income for that year."

A person whose estate is being administered should have filed a return by April 30 of next year. It does not say in subsection 3 of section 40 that the person administering the estate must file it by April 30. Liability is imposed on him the day he takes over. Therefore it is not possible to determine, as I see it, when he is going to be in default. How do you determine that?

Hon. Mr. ABBOTT: I think you may have picked out a flaw there. Your point is how does one establish the date of default, the start of default?

Mr. FULTON: For instance, if a taxpayer should not file his returns by April 30 and he then becomes bankrupt or a lunatic and the administrator is not appointed until June 1 is he already 60 days in default or 31 days in default?

Hon. Mr. ABBOTT: I am glad you brought up that point. If we may let the section stand we will have a look at it, too, when we are taking up Mr. Lesage's and Mr. Marquis' point.

Mr. BENIDICKSON: If we are letting this section stand it brings to my mind the fact we have let other sections stand. We are getting on to the end of the statute. I know this section is to be brought up at the convenience of two members, but we also have people here who are interested in earlier sections that have been allowed to stand. I wonder if we could follow the policy of taking up those sections as early as the department is able to give a decision.

The VICE-CHAIRMAN: The first section allowed to stand was section 8.

Hon. Mr. ABBOTT: I had thought we might deal with the amendments later. I know there are some sections in which some people are interested. Perhaps we might deal with those between now and 6 o'clock. The proposed amendment

to section 8 is that the words in subsection 2 of clause 8 of bill 338 "shall be included in computing the income of the shareholder for the year" be deleted and the following substituted therefor: "shall be deemed to have been received by the shareholder as a dividend in the year." That was the point raised by Mr. Jackman, and I think that covers his point. That is the amendment to subsection 2 of clause 8.

Mr. JACKMAN: What is the amendment?

Hon. Mr. ABBOTT: The amendment will be to strike out the words "shall be included in computing the income of the shareholder for the year."

Mr. MACDONNELL: What line is that?

Hon. Mr. ABBOTT: Line 27—and substituting therefor "shall be deemed to have been received by the shareholder as a dividend in the year."

Mr. ISNOR: What does that mean?

Hon. Mr. ABBOTT: Dr. Eaton will explain the point.

Mr. EATON: A question was raised on subsection 2 of section 8 as to whether that section would not penalize legitimate loans where were intercompany loans between a subsidiary and the parent. The way this rewording fixes that or relieves the penalty is that instead of deeming it to be income it is deemed to be a dividend. A dividend from one company to another is not taxable in the hands of the receiving company. Therefore the parent company is not penalized by this being deemed to be a dividend. If it was deemed to be income it would be taxable income, but being deemed to be a dividend, and being a dividend from one company to another, it is not taxable in the hands of the receiving company.

Mr. JACKMAN: I wonder if that really hits the case I had in mind. Take the case where you have two companies in the same office that have the same management. One company happens to be a shareholder of the other company but by no means is the first company a subsidiary of the second shareholding company. The second company happens to borrow some money from the first company on a temporary loan. Obviously if that were treated as a dividend to the second company it being a dividend passing from one to another—

Hon. Mr. ABBOTT: It is only for taxation purposes. It can enter it on its books the way it wants to. Merely for Income Tax Act purposes it is assumed to be a dividend and would therefore not be taxable—by any company.

Mr. ISNOR: If you substitute the word "individual" for "company" and do not deal with a subsidiary company would it be in order under this amendment for a company to pay a dividend and that dividend to remain on deposit with the parent company?

Hon. Mr. ABBOTT: Quite, provided the person entitled to the dividend was willing it should so remain. If I am a shareholder in a private company I can declare a dividend and then say to the company, "Do not pay it to me. Hold it on deposit."

Mr. ISNOR: And build up a reserve?

Hon. Mr. ABBOTT: That is right.

Mr. ISNOR: Without taxation?

Hon. Mr. ABBOTT: That would then be taxed. In effect it would be a loan to the company by the shareholders.

Mr. ISNOR: It appears to me that the department is borrowing trouble, and also giving a benefit that certainly none of us are in a position to have if shareholders allow their dividends to remain on deposit or in reverse to be used as capital to further their business as against taxpayers?

Hon. Mr. ABBOTT: You have to pay taxes on them. If a dividend is declared to the individual taxpayer then he pays his tax on it. He may turn it back to the company if he wishes. This is a section designed to prevent evasion. Let us take the case of a private company owned by one man with the exception of the directors' qualifying shares. He does not want to declare a dividend because it goes into his personal income and he would have to pay tax. He would like to use the money for a year or so for personal purposes. The law says if he does that it is deemed to be a dividend, whatever he calls it. He has got to include it for taxation purposes in his own personal income. There is nothing to prevent him if he wishes to declare a dividend to himself and pay taxes on it and then turn the remainder back to his company.

Mr. ISNOR: It is the same as an individual business man reinvesting or allowing the surplus to remain in his business, but on that increased amount we must pay taxes?

Hon. Mr. ABBOTT: That is right.

Mr. ISNOR: Does the same thing apply there? That is my question. It does?

Hon. Mr. ABBOTT: Yes, it does.

Mr. ISNOR: That is clear?

Hon. Mr. ABBOTT: Yes.

Mr. MACDONNELL: The minister was going to consider a point I raised yesterday with regard to subsection (a) of section 2.

Hon. Mr. ABBOTT: What is that?

Mr. MACDONNELL: I raised a question with regard to subsection (a) of section 2 where it says "unless the loan was made in the ordinary course of its business and the lending of money was part of its ordinary business". I mentioned that was highly restrictive.

Hon. Mr. ABBOTT: This is pretty carefully considered. I have considered it over a long period of years. Loans from companies to their shareholders are generally speaking illegal. That is pretty much the general principle. Certainly loans to directors are objectionable. It is against the law there, and in the case of income tax law it has been the practice for a long time that unless the company is in the business of lending money, such as a bank or trust company or loan company, that if it lends money to shareholders it must be for the purposes set out in the section here, that is, to enable an officer or servant of the corporation or assist him to purchase or erect a dwelling—that is a new relaxation—or to assist him in purchasing fully paid up shares of the corporation.

Mr. MACDONNELL: But I still do not understand why you wish to prevent a bona fide case of one company making a loan to another company even though it is to another company which is a shareholder. What is the objection to that?

Hon. Mr. ABBOTT: Because that might be an indirect way of getting your capital out of the company except by reduction of capital. The capital of the corporation is supposed to be there to protect creditors and shareholders. Shareholders come first. That is why the general rule about making loans to shareholders is there.

Mr. MACDONNELL: Surely you are not getting rid of capital by making a loan?

Hon. Mr. ABBOTT: The amendment which we have just made takes care of the corporate shareholders. There it is deemed to be a dividend. In the case of the individual shareholder it must be for special purposes.

Mr. MACDONNELL: It need not be a dividend but still it is limited. If you are taking care of it in that way why it is still under the limitation of (a).

Mr. GAVSIE: I think perhaps you are misreading paragraphs (a) (b) and (c). If it is made in those cases it is not deemed to be a dividend. If a loan is made to a shareholder by a company whose ordinary business is lending money then it is not deemed to be a dividend, or if it is made for the purposes mentioned in (b) and (c). If it is made by a corporation to a corporate shareholder and the corporation lending the money is not in the ordinary business of lending money it is deemed to be a dividend, and dividends from company to company are not taxable.

Hon. Mr. ABBOTT: Of course, the loan to the corporate shareholder could only be to the extent that the company had on hand undistributed income available for dividends. The loan could not be made out of capital.

Mr. JAENICKE: I should like to ask one more question on section 8. Does that include patronage dividends of a co-operative?

Hon. Mr. ABBOTT: We have got special provision for that in section 68. There is an amendment to be brought in which expressly covers that.

Mr. JAENICKE: The amendment will except the co-operative out of this section?

Hon. Mr. ABBOTT: Yes. The special section deals with co-operatives, not this section.

Mr. JAENICKE: The amendment will except co-operatives out of this section?

Hon. Mr. ABBOTT: Yes.

Mr. ISNOR: That raises a point I had in mind. I did not know that you were going to have an amendment. We will deal with that in section 68?

Hon. Mr. ABBOTT: I do not know that the amendment directly relates to this section.

Mr. ISNOR: I say you are borrowing trouble there.

Hon. Mr. ABBOTT: We may discuss that when we come to 68.

The VICE-CHAIRMAN: Carried. Section 11 (1) (a).

Mr. JACKMAN: Before we go on to that I do not think this amendment covers the case I mentioned which is probably rather an unusual case and one which should probably never cause a great deal of trouble, but it is a technical subject, a loan from one company to the other. First of all this section comes under computation of income. Is that the section which decides what constitutes your income? For instance, if a company received dividends from another company is that part of your income under this section?

Mr. EATON: It is a part of your income but the deduction will be in respect of dividends from other companies.

Mr. JACKMAN: It is a part of your income in computing it. Then you would not be taxed under the original wording here because there is no tax on that anyway, it being a dividend from another company.

Hon. Mr. ABBOTT: Under the original wording it was not a dividend; it was declared to be income and therefore taxable. By virtue of the amendment it would be in effect created tax exempt income as between corporations. I think your case is taken care of.

Mr. JACKMAN: There is only one small point that I will not trouble you with as to assessing the cost of operation as between non-taxable income and taxable income. This does throw the balance in favour of the non-taxable income, but I will not go into that now.

Hon. Mr. ABBOTT: I am afraid that cannot be corrected.

The VICE-CHAIRMAN: Section 11 (1) (a).

Hon. Mr. ABBOTT: This section is one which I asked to have stand in order to give consideration to an amendment to 11(1)(a) and (b) which are read

together. These relate, of course, to depletion. The amendment which I propose is with respect to 11(1) (b) which now reads:

Such amount as an allowance in respect of a coal mine or an oil or gas well, if any, as is allowed to the owner by regulation.

That was the point raised by Mr. Bradette and others yesterday. The amendment would be to replace (b) and substitute the following:

Such amount as an allowance in respect of an oil or gas well, mine or timber limit, if any, as is allowed to the taxpayer by regulation.

In other words, it adds mine or timber limit. Those are the ones which are now allowed depletion on the percentage basis.

Mr. JACKMAN: In other words, this makes no change in the present practice?

Hon. Mr. ABBOTT: That is correct. I never felt it was really necessary to spell it out in that way, but representations were made that it should be done, and I am quite willing to agree to do that.

Mr. MARQUIS: You add those words after "gas well"?

Hon. Mr. ABBOTT: Yes, the amendment is to add after "gas well" the words "mine or timber limit."

The VICE-CHAIRMAN: And to strike out the words "a coal mine."

Hon. Mr. ABBOTT: That is right. You do not need "coal mine." Therefore the section will read:

Such amount as an allowance in respect of an oil or gas well, mine or timber limit, if any, as is allowed to the taxpayer by regulation.

In subsection (2) of the section there is a consequential amendment. Subsection (2) should be replaced and the new subsection will read:

There may be deducted in computing the income of a shareholder from shares in a corporation whose income is from the operation of an oil or gas well or mine such amount, if any, as is allowed by regulation.

Mr. FULTON: Or timber limit?

Hon. Mr. ABBOTT: Timber limit does not come in here because they have never had it. We are confirming existing practice. Subsection (2) is the shareholder's allowance and this other consequential amendment is the lessee's share of certain allowances. The amendment to subsection 3 will read:

Where a deduction is allowed under paragraph (b) of section 1 in respect of an oil or gas well, mine or timber limit operated by a lessee, the lessor and lessee may agree as to what portion of the allowance each may deduct and, in the event that they cannot agree, the minister may fix the portions.

What is being done as a result of this amendment is to spell out in the statute what in fact is being allowed and has been allowed for some time in practice by the Department of National Revenue under the general depletion sections of the Act. As I say I think the general language was quite sufficient before, but if anybody is worried about it there is no particular objection to spelling it out, and that is what we are doing.

The VICE-CHAIRMAN: Shall the section, as amended, carry?

Carried.

The next section was section 12 (1) (b).

Hon. Mr. ABBOTT: That was for an explanation. I think that was given.

Mr. FULTON: No. I am not in a great hurry.

Mr. GAVSIE: We are considering the point you made. Our experts happen to be out of town.

Mr. FULTON: I am in no great hurry.

Hon. Mr. ABBOTT: Could we allow that section to pass?

Mr. FULTON: You can allow it to pass with the exception of (b).

Hon. Mr. ABBOTT: The only trouble is Mr. Gavsie says his experts are out of town. When will you have their explanation?

Mr. GAVSIE: We have a draft directive which you have seen. We are considering the point that you have made in finalizing this draft directive. It will not change the provisions of the section. It is a question of the direction that is being made pursuant to the section, and if any change is made it will be made in the directive, so it does not affect the wording of the section.

Hon. Mr. ABBOTT: You were concerned about the basic herd matter?

Mr. FULTON: Yes.

Hon. Mr. ABBOTT: The language of the section is broad enough to allow the basic herd problem to be handled in any way it should be. It is not a question of spelling out in the statute how the so-called basic herd matter is handled. It is a question of what is income.

Mr. FULTON: There is just one point. Under the directive it is provided that there can be no special allowance for capital loss of a herd resulting from disease or disaster. If the directive is changed then that will be quite satisfactory, or if any modification of that position in the directive is made, but if it were not I would ask that consideration be given to the working out of depreciation allowance for basic herds.

Hon. Mr. ABBOTT: It still would be on the wide regulatory power contained in the Act. Questions of depreciation and depletion are left to be fixed by regulation. It is not spelled out in the Act. It cannot be spelled out in the Act. The whole principle that we have been discussing under the immediately preceding section, under 11 (a), is "such part of the capital cost to the taxpayer of property, or such amount in respect of the capital cost to the taxpayer of property, if any, as is allowed by regulation."

Depreciation, depletion, exhaustion, all those items are capital items, but I think it was agreed by most of the groups with whom it was discussed that it is not possible to spell out a particular case in the Act. These are being worked out by regulation. That is what Mr. Gavsie refers to.

Mr. FULTON: The point I made is understood by the officials, the point I made in that respect?

Mr. GAVSIE: Yes, we understand it.

Hon. Mr. ABBOTT: The law is quite broad enough to enable your contention to be implemented if it is proper to do so.

The CHAIRMAN: Shall the section carry?

Carried.

Section 13.

Hon. Mr. ABBOTT: Section 13 (1); there is an amendment here. This was the section where I suggested that I thought in the interest of the taxpayer it would be wise to reinstate the ministerial discretion, and I think it was the feeling of the committee that that might be done. I am prepared to move that this section be replaced by the following:

13 (1) The income of a person for a taxation year shall be deemed to be not less than his income for the year from his chief source of income.

(2) The minister may determine which source of income or sources of income combined is a taxpayer's chief source of income for the purpose of this section.

The CHAIRMAN: Shall the amendment carry?

Carried.

Section 16 (2):

Hon. Mr. ABBOTT: That was to stand for some explanation. This is Mr. Macdonnell's point. I think it was due more to a misunderstanding. What happens is this—Mr. Eaton, perhaps you had better explain it.

The CHAIRMAN: It is 22 (1).

Hon. Mr. ABBOTT: 22 had to do with transfers to persons under nineteen years of age, and the question was whether or not we should leave both (a) and (b). It now reads: ". . . unless (a) the transferee has before the end of the year attained the age of nineteen years, and (b) it is established by the transferor that the transfer was not made for the purpose of avoiding income tax".

I suggest an amendment that it simply be restricted to (a): ". . . unless the transferee has before the end of the year attained the age of nineteen years."

Transfers to persons under nineteen years of age are subject to tax in the hands of the transferors; after the age of nineteen it would be in the hands of the transferee.

The CHAIRMAN: Shall section 22 as amended carry?
Carried.

The committee adjourned to meet again this afternoon at 4.00 o'clock.

EVENING SESSION

The committee resumed at 8.30 p.m. The Vice-Chairman, Mr. E. Rinfret, in the chair.

The VICE-CHAIRMAN: Gentlemen, we have a quorum. Shall we first go back to section 16 (2) which was held in suspense while Mr. Macdonnell was away?

Hon. Mr. ABBOTT: There is going to be some explanation of that, I think. Mr. Jackett can, perhaps, give a word of explanation on section 16, subsection (2).

Mr. JACKETT: The purpose of this provision is to try to spell out what we thought was intended by the provisions that you find in at least one, if not more, places in the Act which speak about incomes that have been received, whether or not they are distributed or divided in the year. You have revenues from property held jointly which may be received by one of the joint owners or by an agent or trustee for the joint owners and they are not divided or distributed in the year. Nevertheless, they should come into the taxpayer's income for that year. He should not be able to adjust his income as between years by leaving those revenues in the hands of someone else. I do not think the subsection does any more than that.

(Mr. Cleaver took the chair).

Mr. MACDONNELL: Well, that does not seem to me to meet the point which I raised the other day. Actually, a man might be taxed in the year on income which might never come into his hands. He could not get redress because he could not come along and say he never got it.

Mr. JACKETT: The section does not apply at all unless somebody got it for him. He has control over it.

Hon. Mr. ABBOTT: If a payment is due to Jones and Brown and it is paid to Jones but, for some reason or another Brown is not paid his share at that time, it is deemed to have been paid to Brown at the same time it is paid to Jones.

Mr. MACDONNELL: It says,

Notwithstanding that there was no distribution or division thereof in that year.

Hon. Mr. ABBOTT: That is, as between Jones and Brown. It is covered in the preceding phrase.

A payment or transfer in a taxation year of money, rights or things made to the taxpayer or some other person for the benefit of the taxpayer and other persons jointly or a profit made by the taxpayer and other persons jointly in a taxation year shall be deemed to have been received by the taxpayer—etc.

I think it is all right, Mr. Macdonnell.

The CHAIRMAN: Shall the section carry?

Mr. FULTON: Just a moment; I just want to be sure—perhaps I could ask the minister a direct question as to the recommendation—

Hon. Mr. ABBOTT: Which section are we talking about?

Mr. FULTON: Section 16.

Hon. Mr. ABBOTT: It is section 16, subsection (2) which we are discussing.

Mr. FULTON: I want to know whether the weakness pointed out by the Chartered Accountants' Association has been met in this new bill?

Hon. Mr. ABBOTT: What was their recommendation, Mr. Fulton?

Mr. FULTON: I apologize, Mr. Chairman, their recommendation deals with section 16, subsection (1).

Hon. Mr. ABBOTT: That was passed the other day, but perhaps we might answer your question just the same.

Mr. JACKETT: What page is it?

Mr. FULTON: It is section 16, subsection (1) which was carried. We do not need to go back.

The CHAIRMAN: Shall the section carry?

Carried.

Mr. BREITHAUP: Have we finalized section 16, subsection (2) now?

Hon. Mr. ABBOTT: Yes; that was held for Mr. Macdonnell.

Mr. BREITHAUP: We are now at section 51?

Hon. Mr. ABBOTT: Section 51 stands. We are now at section 52.

The CHAIRMAN: Shall section 52 carry?

Mr. JACKMAN: May I ask a question on this which probably has more to do with departmental administration? This was a case where a taxpayer had omitted to include in his 1946 return some dividends which did not come to him directly. Eventually, the department caught up with him, of course. The taxpayer, however, had been in the habit of overpaying his taxes because he was never certain what they would be. He had a credit in 1947, at the time the assessment was made. He delayed, therefore, paying the additional assessment and did not worry about paying the interest running against him because he thought there would be no interest.

Finally, a second notice came along and said, "We presume you wish to settle this amicably." By that time, the taxpayer thought he ought to answer the letter. Therefore, he sent a cheque for the amount of the tax and said he presumed the interest would not run against him. The reply was that the overpayment of tax to which he referred being in another tax year, the department would have to have written authority before transferring other credits against arrears and interest would run against any unpaid balance. In practice, they were charging him interest, although the government had quite sufficient money, above his tax, to cover the deficiency in 1946.

Hon. Mr. ABBOTT: What is your practice in that connection, Mr. Gavsie?

Mr. GAVSIE: Our practice does not seem to be in accordance with the case you have outlined. If you would let us have the case, we might look into it.

Mr. JACKMAN: Very well.

Hon. Mr. ABBOTT: Subsection (2) of this section would appear to afford a right of offset.

The CHAIRMAN: Section 53, shall the section carry?

Mr. FULTON: No. There is a point in connection with section 52 which I think should be considered. The minister is given discretion in connection with the making of refunds whereas the taxpayer is given no discretion in connection with the making of underpayments and in fact the taxpayer is charged interest if through an error he has underpaid the tax. The minister may make a refund but he is only compelled to make a refund if the taxpayer applies. I suggest that in order to provide equity the minister should be under the same obligation to make the refund as is the taxpayer who is under obligation to pay with interest when he has underpaid. I am wondering whether the word should be "shall"?

Hon. Mr. ABBOTT: I think there is a general rule that there should be a demand before there is a duty placed on the minister. I daresay where there has been an overpayment the practice has been to make the refund.

Mr. JAENICKE: Yes, I received a refund for 1944 and they said they would be sending it along within thirty days.

Mr. GAVSIE: Where there is an actual overpayment often it will not appear without the taxpayer bringing it to our attention.

Mr. FULTON: What is that?

Mr. GAVSIE: There may be a case where it is apparent from the assessment and the payments made by the taxpayer that there has been an overpayment, and in that case there is a stamp on it saying that the refund will follow in thirty days. There may be other cases where the situation is not apparent from the documents available to the assessor at the time. In that case the taxpayer should call it to our attention and upon receipt of the request we will make the refund.

Hon. Mr. ABBOTT: I think in practice the system works fairly well.

The CHAIRMAN: Shall section 53 carry?

Mr. HAZEN: I have been absent, I am sorry, but there is a general remark I would like to make. It is in connection, perhaps, with section 51.

Mr. MACDONNELL: 51 stands and it will come up again.

Mr. HAZEN: Well—

Mr. FULTON: Let him make his general remark.

Mr. HAZEN: What I want to say is that I believe every person who receives the same income should under similar circumstances pay the same tax. Now under our Income Tax Act it does not work out that way. An expert accountant is able to ride a team of horses through the Act.

Mr. FULTON: Not any more.

Mr. HAZEN: I hope it cannot be done any more but what I had in mind, when I noticed this bill was at the resolution stage, was this example. Two young men go into the garage business. They get an exclusive agency for some kind of an automobile in a certain territory. They sell a lot of cars and make a good income. Then somebody—some accountant—advises them that if they decide to incorporate a company they can save income tax. They incorporate the company. They sell to the company their exclusive franchise and they take in payment no money but so many tens of thousands or so many thousands of debentures. Now the same two people carry on the business under the name of a company. When the next year comes around they have sold a lot more cars and they have a good income but instead of paying tax on that income they take some of that money and pay off some of the debentures which is a

capital charge. As a result the income is reduced and they do not pay as much income tax as they did in the previous year. That is one way of getting around it, and it is only one instance. There must be members of your department who are very familiar with these things. I could mention other transactions because these things come up every day. There must be members of your department who know the ways of getting around the Act and I think we should call someone up here to tell us how these accountants get around the Act, with a view to plugging the holes.

Hon. Mr. ABBOTT: It is not so easy to get around the Act. Over the years we have been plugging holes and plugging holes and more holes.

Mr. HAZEN: This has been going on ever since I have been here and they are keeping within the law.

Hon. Mr. ABBOTT: The case you have been citing is not one of them. I cannot see how they do it on the facts which you state. I do not see how income tax could be saved under those circumstances.

Mr. HAZEN: They pay off the debentures from time to time as a capital charge.

Hon. Mr. ABBOTT: They can only pay off the debentures out of tax paid earnings.

Mr. FULTON: It is one of the devices open in order to avoid the situation which I mentioned yesterday, the double taxation on small corporations, and you can charge up against income repayment of interest of borrowed capital.

Hon. Mr. ABBOTT: Interest on borrowed money for the purposes of a business is an expense.

Mr. FULTON: Yes.

Hon. Mr. ABBOTT: Of course a man has the option of putting in the business his own equity capital or borrowed capital but you cannot pay off capital debentures out of tax free earnings.

Mr. FULTON: No, not capital, but you can pay interest on debentures.

Hon. Mr. ABBOTT: That is true but interest on borrowed money is and always has been an expense to a business. The Canadian Pacific Railway Company pays interest on debenture stock and charges that as an expense.

Mr. FULTON: I hesitate to embark on this because Mr. Hazen has brought it up, but now that it is in the open it is one way in which small companies have avoided paying double tax, because instead of a man incorporating a company and selling his interest by taking shares of the company on which he would be paid a dividend he takes a number of debentures and then when he has paid the interest on the debentures the company does not have to pay.

Hon. Mr. ABBOTT: Before he can take interest on the debentures he must have loaned the company money.

Mr. FULTON: He has sold the company the franchise.

Hon. Mr. ABBOTT: And he has to pay personal income tax on the interest when he gets it. If he did not incorporate the company and earned money on the sale of his cars he would have to pay income tax on that as personal income. He does exactly the same thing on interest on debentures of a company in which he owns shares.

Mr. FULTON: You will remember yesterday when we were discussing the question of corporations taking advantage of the privileges which incorporation gives you, and if you do it and take simply shares you are doubling the tax.

Hon. Mr. ABBOTT: Yes, but there never has been any obligation on a citizen to deliberately set up his affairs in such a way as to pay more tax than he needs to pay. There never has been that obligation, and no one has ever suggested

that there should be. I was going to say that is elementary. If you set up your company with loan capital instead of share capital of course it is true. It has been done ever since companies began to pay income tax. There are ways in which tax can be evaded but this is not one of the best ways.

Mr. FULTON: I am not suggesting it is a method of evasion but I do say it is a method by which people incorporate companies to avoid paying double tax.

Hon. Mr. ABBOTT: It does not need an expert accountant to tell you that; any businessman understands it.

Mr. HAZEN: You say I am wrong in what I said? If two fellows get together to form a partnership and then organize a company and sell their franchise to that company for a substantial sum of money and take in return not money but debentures, then when the company has a good year the company pays those chaps off some of those debentures and thereby reduces its net income?

Hon. Mr. ABBOTT: It cannot charge payment of debentures against his income, Mr. Hazen.

Mr. JACKMAN: That would be a capital payment.

Hon. Mr. ABBOTT: It is a capital payment it is making there.

The CHAIRMAN: Are you through, Mr. Hazen? Shall we go on with section 53?

Mr. HAZEN: They tell me that is one way in which they are getting around payment of income tax, why some people pay more than others. They get together and form a company and save money while the other fellow pays the full amount. It seems to me that if there are any holes we could plug up in the act we ought to do so.

Hon. Mr. ABBOTT: You are quite right, and I may say that has been the constant effort of the officials of my department and of the Department of National Revenue ever since the Income War Tax Act was brought into force in 1917, loopholes have been plugged as they have been discovered; and as these smart accountants and lawyers find a way of getting around the law as it stands we try to remedy the law. The law is full of sections which endeavour to prevent evasion. No doubt the act itself is not yet perfect and there still may be some ways about which we do not know of avoiding it. Most of the loopholes have been plugged, any that we know of anyhow.

Mr. JAENICKE: I believe that what Mr. Hazen means is the kind of company which is set up to buy a franchise, and it is bought at a fancy price, thereby establishing a debt which is not really a debt. Isn't that the idea?

The CHAIRMAN: No. But, Mr. Jaenicke you understand that a company cannot pay off any of its debentures without paying the corporation tax on that income from which the debentures are paid. Say a company retires \$1000 of its debentures, as in the case Mr. Hazen mentioned, that company must pay 30 per cent tax on those earnings when it retires the debentures.

Mr. JAENICKE: They have to pay that before receiving it as a part of income?

The CHAIRMAN: That is not a book debt, it is a capital debt. It is not an operating debt.

Did you have a question, Mr. Macdonnell?

Mr. MACDONNELL: I am still a little like Mr. Hazen, I do not understand. If the company had debts it has to pay—I do not quite understand.

The CHAIRMAN: A capital debt is different from an operating debt or an operating expense. The interest payment would be an operating expense but not the capital.

Mr. MACDONNELL: No, wait a minute—

The CHAIRMAN: Section 53.

Mr. FRASER: On section 53: In section 48, it says, "the minister may direct that all taxes, penalties and interest be paid forthwith upon assessment." And in this section it says that the taxpayer has to make his objection to the assessment within 60 days. It means, therefore, that the taxpayer has to pay up within 30 days.

Hon. Mr. ABBOTT: May have to.

Mr. FRASER: May have to; but as it now stands the minister can go after him, or the tax collector can go in after him and make him pay it up whether he thought he was entitled to pay it or not. What I am getting at is, why do you not make these both 60 days?

Hon. Mr. ABBOTT: We might make this one 30 days. That is an extra delay for the taxpayer. We might make them both 30 days.

Mr. FRASER: It is short, because there might be something which crops up unexpectedly that he did not know anything about.

The CHAIRMAN: Shall section 53 carry at the 60 days?
Carried.

Section 54? The two of them do not seem to gibe.

Hon. Mr. ABBOTT: Section 48—you are referring there to subsection 2?

Mr. FRASER: Yes.

Hon. Mr. ABBOTT: There are 30 days after the mailing of the notice of assessment before any interest penalty commences to run. I mean, the interest penalty of 7 or 8 per cent does not commence to run until after the 30 days; and subsection 2 is where in the opinion of the minister the taxpayer is attempting to avoid payment of the tax the minister may direct that all taxes, penalty and interest be paid forthwith upon assessment—not within 30 days. That is all subsection 2 means.

Mr. FRASER: That is cutting down the time.

Hon. Mr. ABBOTT: Yes. That is a necessary power to give the minister say in the case of a taxpayer leaving the country or getting rid of the assets or something of that kind. That does not take away from the taxpayer his right to appeal under section 53, to appeal an objection to the assessment within 60 days after the mailing of the notice of assessment.

Mr. FRASER: But after the taxpayer has paid his assessment of penalty he would not have very much of a chance of getting them back.

Hon. Mr. ABBOTT: That is a reflection on the court, surely. If he is right he will get it back.

The CHAIRMAN: Section 55?

Mr. TIMMINS: Is a bond still required, or an assurance of costs, in connection with an appeal to the Exchequer Court?

Hon. Mr. ABBOTT: This is still the same rule that has been in there before.

Mr. TIMMINS: That has been pretty hard on some people. I call to mind the case of a chap in this war whose wife carried on a business while he was away and unfortunately got stuck for some taxes that had inadvertently become involved in the deal through the business his wife was carrying on, and that veteran got to the point of appealing to the Exchequer Court and he just didn't have the bond to put up.

Hon. Mr. ABBOTT: That is why, Mr. Timmins, among other things the Income Tax Appeal Board is being set up as an appeal court, and there the

security is only \$15. You have to go to the Income Tax Appeal Board first, so the Exchequer Court is now really a second court of appeal. I do not think it is unreasonable therefore, where a taxpayer has a case to take to this Income Tax Appeal Board he can take it on a nominal security of \$15.

Mr. TIMMINS: What security has to be put up for the Exchequer Court, the same as ordinary?

Hon. Mr. ABBOTT: \$400, I think.

Mr. TIMMINS: That is set out in the regulations?

Hon. Mr. ABBOTT: It is in this act.

Mr. JAENICKE: Yes, under J. By the way, Mr. Chairman, are there any regulations as to appeal to the Income Tax Appeal Board?

Hon. Mr. ABBOTT: The situation, as you know Mr. Jaenicke, is that the board has not yet been appointed, and the board itself when appointed will work this out; at least, that is our thought. Then they will be approved by the governor in council.

Mr. JAENICKE: Should we not put them in the act?

Hon. Mr. ABBOTT: They are in the provisions we will come to later relating to the Income Tax Appeal Board. That is in division I.

The CHAIRMAN: Shall section 55 carry?

Carried.

Section 56.

Mr. FULTON: On section 56, I would like an explanation from the officials because it would appear to me that as it stands it would defeat the right of appeal I may wish to take because of something which arises out of an assessment which has been entered. The assessment on the taxpayer might have been arrived at improperly because the assessor has committed some irregularity, or allowed some omission or error. You take, if the taxpayer wishes to appeal the assessment, under this section as it stands the court would hold that it could not be allowed because of the grounds set out here. You see, the section says, an assessment shall not be vacated or varied on appeal, etc.

Hon. Mr. ABBOTT: This section has been in the Income War Tax Act for a good many years.

Mr. JACKETT: I do not think it is very different than if it was not there. You do not invalidate an act of this kind because of a mistake which lies merely in a breach of a directory provision.

Mr. FULTON: But if that breach of a directory provision has resulted in an erroneous assessment, then it is not merely a breach of directory provision, it is an erroneous assessment of objection to the assessment.

Mr. FULTON: If you were to insert the word "only"—

Hon. Mr. ABBOTT: One example might be the sending of a notice of assessment by registered mail. Suppose it went by ordinary mail. It was received and all the rest of it, but through a mistake it went by ordinary mail instead of registered mail. You would not vacate the assessment and declare the taxpayer to be free of tax because of that irregularity.

Mr. FULTON: Suppose the result of that error was that the taxpayer had not received the notice of assessment in time to enable him to make an appeal. Admittedly the assessment is not made because of that error or omission but the right of appeal may be lost. Could you not insert the word "only" so that it would read "by reason only of any irregularity"? I think that would cover what I have in mind.

Mr. JAENICKE: That is what Mr. Jackett said in explaining it.

Hon. Mr. ABBOTT: I have no objection to that at all.

The CHAIRMAN: Mr. Fulton moves that the word "only" be inserted after the word "reason" in the second line of section 56.

All those in favour please signify?

Carried.

Section 57.

Mr. HARKNESS: There is a matter I should like to bring up in regard to a fund for charitable purposes. Subsection (e) is the same as the old section 4 (e). It appears that income accumulating in a trust for charitable purposes is taxable because such a trust is not a charitable institution although, as a matter of fact the funds are all for charitable purposes. I think the officials will no doubt be familiar with the case of Pat Burns' estate versus the Minister of National Revenue in connection with this matter in which there was quite a large sum of money left for charitable purposes but it was left in a trust. At the time the will was made that would not have been taxable but this provision has subsequently been changed so now it has been held by the courts it is taxable. I would think that the accident of the method by which the funds are transferred to charity or made available for charity should not defeat the general intent of the Act that charitable funds or income accumulating on those funds set aside for charity should not be taxable, which appears to be the case as things now stand.

I should like to suggest an amendment either at this point or in section 58 which would cover that case so that the income on funds actually set aside for charity, even though they were set aside with a trust company for administration, will not be taxable. The suggested amendment I have would read as follows, that there should be added after (e) which deals with funds for charitable purposes, as an exemption:

A trustee, executor or administrator of a charitable trust controlling the income thereof in the manner contemplated under section 58 of this act.

Hon. Mr. ABBOTT: Do you care to make any comment on that, Dr. Eaton?

Mr. EATON: So far as I know the present law continues the same provision of the old law. You are asking for a change in the policy which has been upheld by the courts in the old law.

Mr. HARKNESS: My general point is that the intent of the law as originally passed, and as I think it still is, should be preserved. Funds set aside for charitable purposes and put directly in the hands of a charitable institution can accumulate income and that income is not taxable, but if the same amount of money instead of being turned over directly to the charitable institution is put in the form of a trust then the income which accumulates there, in spite of the fact it is all for charitable purposes, is taxed as a result of this decision in the Burns case. I am suggesting an amendment to clear that up so that in the future as to charitable funds if they are definitely for charity the intent of the act will be carried out, and that the accident as to how they happen to be set aside would not cause them to be subject to income tax.

Mr. EATON: I think the way the principle of the law is followed out is that a charitable organization receiving income is not taxable, and persons may give up to a certain amount to charitable organizations. Of course, there is the intent stated that eventually the proceeds will go to charitable organizations but the income has not been received by the other organization. It is accumulating here in the hands of a trustee and it is the trustee's income. Other people cannot get control of that income, and as a matter of fact, the trustee may lose. There is no guarantee that eventually that income will in fact be received. The

conditions are there that eventually the income may go to charity; but in the meantime it is being received by somebody who is not a charitable organization.

Hon. Mr. ABBOTT: There is the point, of course, that a charitable trust such as you have mentioned is a form of private charity until the funds are distributed.

Mr. HARKNESS: In this particular case I have mentioned the trust was set up and the funds were turned over to it for the benefit of five different charitable institutions. The entire moneys put in the trust and the income which accumulated were for the benefit of these charities. At the time it was set up it was not taxable but due to this subsequent decision it is taxable. It seems to me to carry out the intent of the act an amendment such as the one I have suggested is necessary.

Mr. CHAIRMAN: Would you mind explaining that? I do not understand that yet. Do I understand these funds are earmarked for charitable purposes but not actually transferred to charity?

Mr. HARKNESS: Yes. The funds were set up in this trust for benefit of those five charities. I do not know what the terms were upon which the money was to be paid out, but the income and a certain amount of capital were to be paid out, every year as it was required.

The CHAIRMAN: Is there a gift over of any residue?

Mr. HARKNESS: I do not think so.

The CHAIRMAN: Why do the funds not immediately go to the charity?

Mr. HARKNESS: Because under the terms of the will they were set up in that way, and as I say at the time that the will was drawn they were not taxable.

The CHAIRMAN: Is there any discretion in the hands of those trustees you are speaking about as to payment to the charities?

Mr. HARKNESS: I think the terms are quite definite that the money all goes to these charities but I am not familiar just exactly how. I know the result has been as far as the city of Calgary is concerned that charities there have been deprived of a very considerable sum of money which has gone to the dominion treasury rather than to these charities.

The CHAIRMAN: The reason I ask the question is that just this afternoon I have had handed to me a letter on the same point, and even from reading the letter I cannot understand the point that is raised. Unless there is a gift over to someone else or some discretion remaining in the hands of the trustee as to whether the trustee shall pay over to charity I cannot see where the point arises.

Mr. HARKNESS: It arises apparently due to the fact that when the case was taken to the courts it was held that trust was not a charitable institution.

Hon. Mr. ABBOTT: I am familiar with the Burns case. The amendment which you are suggesting is one which I am afraid I could not agree to without a great deal more consideration than I can give tonight. We have looked at it pretty carefully before. I have had quite extensive representations and presentations on the Burns case by a very capable solicitor who presented it very carefully. I came to the conclusion we were not justified in amending the section. One can always change one's mind, I suppose, but it gives pretty broad scope to charitable donations now. I am afraid I could not accept an amendment at this time.

Mr. HARKNESS: I am not arguing this from the standpoint of the Burns' case; I am using that as an example. It happened to be a case that was settled in the courts.

Mr. BREITHAUP: Is not that covered in section 100 on page 67 later on—under gift tax?

Mr. HARKNESS: No, it is not covered in this particular point.

Hon. Mr. ABBOTT: There are a lot of questions that enter into that. One would have to make a definition as to what constituted a charitable trust. It is far from simple. I would not be prepared to agree to extend the present section.

Mr. HARKNESS: Well I think the point is clear that the funds happened to be left in that way through an accident really, and the method in which they are being transferred to charity in this case is taxable.

Hon. Mr. ABBOTT: Nobody sets up trusts without taking legal advice and any lawyer should tell his client something before they set up a charitable trust under those circumstances and that the income tax may not be so great if the money goes straight to charity.

Mr. HARKNESS: At the time some of these were set up that was not the case.

Hon. Mr. ABBOTT: The law has not been changed for years, as far as I know.

Mr. HARKNESS: In reference to this particular case—the Burns' case—when that trust was set up in Senator Burns' will at that time it would not have been taxable; provisions came in subsequently, as I understand.

Hon. Mr. ABBOTT: I always used to tell my clients that they ought to watch their wills and change them if there were any changes in the law. My advisors advise me that they do think there was any change in the law after the Senator made his will.

Mr. HARKNESS: I think it was made back in 1925 or 1923—I have forgotten when—but I understand there had been changes. At any rate the general intent of not having charitable funds taxed seems to be defeated by the interpretation which has been put on this particular section.

Hon. Mr. ABBOTT: Charitable funds are not taxed; the income of charitable organizations is not taxable income—is not taxed, and people may make gifts of a certain portion of their current income to charity with no deduction to themselves. They may under their will make unlimited gifts to charity and not be liable to succession duties. I do not think we can go much further than that. This provision, I am told, goes back to 1917, since the inception of the Act. It has not been changed since then. The Senator must have had bad legal advice—not bad, but inadequate.

Mr. HARKNESS: You say you are not prepared to accept any amendment on this?

Hon. Mr. ABBOTT: Not at this time, Colonel, no. The matter has got a bit out of my head—the details of the representations which were made to me at the time relating to this particular case—but I certainly think that at the time I carefully discussed them with my officers and came to the conclusion I could not recommend an amendment to the Act. I could review that again, but I do not believe my opinion would change or the advice which I received would change.

Mr. HARKNESS: Could I ask that you take this suggested amendment and consider it and let this section stand until you have looked it over?

Hon. Mr. ABBOTT: I shall be glad to do that. I have an amendment myself to section 57(1). This only relates to 57(1)(e). That could stand, and I will look over the amendment.

Now, there is an amendment to paragraph (i) of subsection (1), which relates to credit unions. I will ask Mr. Jackett to explain the purport of the amendment.

Mr. JACKETT: The proposal is to amend subparagraph (ii) of paragraph (i) relating to credit unions to extend the class of members credit unions can have and still come within the exemption. The change is purely a technical one, and brings within the class of members co-operatives that have been registered under

provincial co-operative legislation as well as those that have been incorporated or organized under such legislation, and also co-operatives that are governed by provincial legislation although they have not been incorporated under it.

Hon. Mr. ABBOTT: That is the explanation and the amendment reads as follows:

Resolved that paragraph (i) of subsection (1) of clause 57 of bill 337 be revised by substituting the following for subparagraph (ii) thereof:

(ii) the members thereof were corporations or associations

(A) incorporated or organized as credit unions deriving their revenues primarily from loans made to members,

(B) incorporated, organized or registered under provincial co-operative legislation or governed by such legislation, or

(C) incorporated or organized for charitable purposes, or were corporations or associations no part of the income of which was payable to, or otherwise benefited personally, any shareholder or member thereof.

There the change is the addition of the words "incorporated, organized or registered" instead of the words "provincial legislation".

Mr. MACDONNELL: Has that a substantial effect?

Hon. Mr. ABBOTT: It has a technical effect. It is in accordance with administrative practice: "incorporated or organized for charitable purposes".

Mr. MACDONNELL: The words in a technical sense do not affect the substance?

Hon. Mr. ABBOTT: I think it is fair to say that they do not affect the substance of the section.

The CHAIRMAN: Before this amendment is put I should like to indicate to the committee that I have received this morning wires from the Canadian Chamber of Commerce in Montreal, J. S. Duncan, president of the Massey-Harris Company Limited, Winnipeg Chamber of Commerce, Bernard Couvrette, K.C., of Montreal, R. E. Walker, provincial secretary, Retail Merchants Association, George S. Hougham, general manager of the Canadian Retail Federation.

The substance of all these wires is to ask that the committee should not make any changes favourable to co-operative taxation.

Mr. GILLIS: I can read you about one hundred more the other way.

The CHAIRMAN: Yes. I have made a practice before the members of this committee all communications which I receive, and I received this evening these telegrams, and that is the gist of them.

Hon. Mr. ABBOTT: I think, Mr. Chairman, these relate particularly to the section of the Act concerning co-operatives as such.

The CHAIRMAN: I believe they do.

Hon. Mr. ABBOTT: Section 68 and the following.

Mr. FULTON: You mentioned the chairman of a provincial something or other; what was it?

The CHAIRMAN: Provincial secretary of the Retail Merchants Association.

Mr. FULTON: What province?

The CHAIRMAN: From Toronto.

Mr. ISNOR: With regard to the amendment, I take it the purpose of that is for charitable purposes only?

Hon. Mr. ABBOTT: These are credit unions.

Mr. ISNOR: Yes. They lend money at a certain rate of interest. They derive a revenue because of their operations. What happens to their earnings?

Hon. Mr. ABBOTT: I do not think credit unions, mutual organizations, have ever been taxed, Mr. Isnor.

Mr. ISNOR: I see. I wanted to know.

Hon. Mr. ABBOTT: I am told that. I am not familiar myself with how they operate exactly.

Mr. ISNOR: I do not want to raise any objection. I just want to know as to their operations. I read their advertisements from time to time: 1 per cent per month, if I remember rightly. I was wondering what happened to their income. They are in competition with the trust companies who pay a 30 per cent tax.

Hon. Mr. ABBOTT: They are a form of co-operative.

Mr. ISNOR: Believing as I do in free enterprise, I was wondering if it was one more benefit or handicap you were placing in the hands of certain loan companies.

Hon. Mr. ABBOTT: This exemption, as you will recall, is in accordance with the recommendation of the MacDougall Commission.

Mr. GILLIS: If you want to take the time of the committee, there are several of us here who could go into all the technicalities of credit unions for Mr. Isnor's benefit. I do not want to do it, but he is completely off the beam in the suggestion he has just made. These credit unions do not make any money. They are not in competition with other banks or trust companies. They are merely providing credit to the people in the community who could not get it under any other system. Their earnings are paid back to the people who participate in them. Incidentally, they provide the best form of insurance one can get.

Mr. ISNOR: I do not want to go over the propaganda either.

Mr. GILLIS: That is not propaganda.

Mr. ISNOR: I was asking a simple question as to their earnings. If there are no earnings, I have not a leg to stand on.

Mr. GILLIS: There are no earnings of a credit union, as such.

Mr. ISNOR: I think there are, from time to time. Then, I say those credit unions should be considered in the light of those earnings or in the light of having a surplus at the end of a period of operation. There is not a lot of detail to it. It is the general principle as to whether one class lending money is in competition with other classes. One is paying a tax and the other is not; that is simple.

Mr. GILLIS: No, Mr. Chairman, it is not that simple. As I stated to Mr. Isnor a moment ago, these companies provide a means of credit, small loans, to the people in the community who could not secure those loans anywhere else. Therefore, the lending institutions are not losing any money. While the credit unions do charge a small rate of interest, that money is not made by the credit unions as such. A small percentage of it is paid back to the members by way of patronage dividends. A great portion of that money goes into an insurance scheme.

For example, I may have \$1,000 share capital in a credit union. That share capital is insured. I can take that \$1,000 out as a loan and be my own backer. My loan balance is insured. If I happen to die suddenly owing the credit union \$1,000, that share capital is still there to my credit. The insurance pays off the loan and the balance payable on my share capital is paid to my beneficiary.

It is the best insurance low income groups can get. The earnings of credit unions, as such, are providing that kind of insurance. It is to that that the major portion of the earnings of credit unions go. Most of the employees of a credit union work gratis. They are not paid salaries. They work of certain definite principles, not for money. A considerable portion of the income of these companies goes into educational material to educate people as to the meaning of the institutions of this country.

Mr. ISNOR: The principle is whether or not they pay interest.

Mr. GILLIS: The principle is they are service organizations that do provide credit to income groups of this country for whom provision has not been made previously. They are service organizations and are not making money.

Mr. ISNOR: As I said, I have no objection to them enjoying these benefits.

The CHAIRMAN: You have heard the minister's amendment to this paragraph (i) sub-paragraph (ii), shall the amendment carry?

Carried.

Shall the section carry with subsection (e) standing?

Carried.

Section 58?

Mr. FULTON: On section 58, it seems to me to be a very complicated section. Is there any possibility that, under this section, there might be double taxation in that the trustee would have to pay a tax on income in one year and then, later, when that income is distributed to the beneficiaries they would have to pay a tax on it again in the year in which it is distributed to them?

Hon. Mr. ABBOTT: I think the answer is, only if it is being accumulated by the trustee for unascertained persons or persons with future or contingent interests. If it is being received by the trustee for the beneficiaries who are in existence and to whom funds are to be paid over, then there is no double tax. Whether or not it is paid to them, it is considered as being received by the beneficiaries.

Mr. FULTON: Perhaps I could understand it if this situation were explained. Take the case of a trust fund which is set up. The beneficiary is to receive the income from the fund of \$1,000 a year. The income accruing to the fund is \$1,200. Probably, I would have to make it more. The income accruing to the fund is \$2,000. The beneficiary receives the income or benefit of the income of \$1,000. \$1,000 remains in the hands of the trustee.

Hon. Mr. ABBOTT: For whom?

Mr. FULTON: It is being held for the benefit of the beneficiary when he reaches the age at which the whole fund is to be turned over. As I understand the provisions of this section, the extra \$1,000 would be subject to income tax.

Hon. Mr. ABBOTT: Mr. Gavsie could explain what the tax position would be there.

Mr. GAVSIE: If it were payable to the beneficiary in the year in which the income was received, there would be no tax. Otherwise, the trustee would be taxed because, in most of these cases, eventually the beneficiary would get a capital payment which the trustee was accumulating for the benefit of the beneficiary.

Mr. FULTON: Take the case and refine it further; when the beneficiary reaches the age of twenty-one, the whole fund is to be turned over to him. Until he reaches the age of twenty-one he is only to receive \$1,000 a year. As I say, the income from the fund is \$2,000 a year. \$1,000 a year is paid over to the beneficiary and \$1,000 of it is paid to the trustee. I understand you to say the beneficiary only pays income tax on the \$1,000 he receives.

Mr. GAVSIE: The trustee pays the tax on the other thousand. Then, when the taxpayer gets the final payment he gets a payment of capital.

Mr. FRASER: On No. 6 of that section; the way I read it is, if the beneficiary just received a portion of the income that year and received the other portion the following year, he would only pay income tax on the portion he received the first year; is that right?

Hon. Mr. ABBOTT: Would you explain that, Mr. Jackett?

Mr. JACKETT: That would be so if the beneficiary were not entitled to it. You have the alternative there that the amount shall not be considered to be payable in a tax year unless it was paid in the year or he was entitled in that year to enforce payment thereof. The reason for the alternative is that you have trusts where the trustee has a discretion to pay a certain amount and the beneficiary is not entitled to enforce payment of any of it.

The first branch of the alternative is that the beneficiary, in such a case, is only taxable on the part he gets. If he is entitled to force payment of it and has it in his control, then it is treated as though it were, in fact, paid to him.

Mr. FRASER: What I am getting at is that in many cases the beneficiary receives a monthly income, but when it comes along to the end of the year and the trustee does not pay it out until perhaps the 15th of January of the following year, does the beneficiary have to pay a tax on that for the year before?

Mr. JACKETT: The year in which he was entitled to receive it.

Mr. FRASER: That is when he has to pay it?

Mr. JACKETT: That is right.

Mr. TIMMINS: He is in the hands of the executor. The executor may not have found it convenient to pay it until the new year has come around yet the beneficiary could have enforced the payment if he had known and paid the tax on it.

Hon. Mr. ABBOTT: Yes, but he does not have to pay it the next year.

Mr. FULTON: I take it that there is no question but that the trustee of such a fund as I mentioned earlier is, for the purposes of this section, a separate individual and not in any way liable to have his own income tax increased.

Hon. Mr. ABBOTT: The chief disadvantage would be if the beneficiary happened to be married and entitled to married exemption. A trustee does not get the benefit of married exemption.

Mr. FULTON: As trustee.

Hon. Mr. ABBOTT: No.

Mr. JAENICKE: Say a farmer in the west has a half section of land and in accordance with his will the property goes to the executors in trust to pay an income on the profits for the life of the widow and his family. She gets no exemption.

Hon. Mr. ABBOTT: She would get the full exemption. It is her income in trust and he is just acting as trustee. He is not holding anything back or accumulating it over a certain period. That is income to the beneficiary.

Mr. JAENICKE: Where does it say that here.

Mr. FULTON: Subsection 2, I think.

Mr. JACKETT: Subsection 5.

Mr. JAENICKE: That only has reference to where the beneficiary pays tax, otherwise then he does not pay tax.

Hon. Mr. ABBOTT: This has always been interpreted in this way. Income received by a trustee for a beneficiary—if the *cestui que* trust is paid money which the beneficiary is entitled to as income—it is income of the beneficiary and taxable according to his bracket, and it is not income of the trustees. There is no double taxation in those circumstances.

Mr. FULTON: Is there any change in the law as it has existed and as it is set out in this bill?

Mr. JACKETT: There is a change in phraseology and therefore you cannot guarantee that there is no change.

Mr. FULTON: It was not the intention to change the law.

Hon. Mr. ABBOTT: It was not the intention to change the law with respect to moneys accumulating in trust.

The CHAIRMAN: Shall section 59 carry?

Mr. HAZEN: Are there any other changes in section 59?

Hon. Mr. ABBOTT: Perhaps Mr. Jackett might explain. This is a relaxing provision of the law as it stood and there is not any big change in substance.

Mr. JACKETT: The main change in subsection 2 at the present time is where an executor collects or otherwise gets in accounts receivable of a professional man that the deceased failed to receive before he died; he is taxable in the year he collects it. Usually it comes in fairly large amounts in a short time and under subsection 2 the executor has three alternatives now and can elect what he thinks is the best way to pay the tax on the amount so collected for the estate.

Hon. Mr. ABBOTT: It is a relaxing provision. A professional man is a good example, where he has large accounts receivable and if those are all received in a short time they may be plugged into one period. There are optional provisions which would enable him to spread it over a longer period. The changes are for the benefit of the taxpayer rather than the tax gatherer.

The CHAIRMAN: Shall section 59 carry?

Carried.

Shall section 60 carry?

Mr. FULTON: There is a substantial change here from the law as it was before.

Hon. Mr. ABBOTT: No, I do not think so.

Mr. HAZEN: Might I ask how you arrive at what is reasonable under subsection 2 of section 60?

Mr. GAVSIE: That opens the question; if the taxpayer is not satisfied with what the department regards as reasonable it is a matter for the courts.

Mr. HAZEN: But on what basis do you work it out?

Hon. Mr. ABBOTT: If I may interject, we have used that phrase in a number of sections in the Act and in a good many of them where it was previously ministerial discretion. Here it is "what is reasonable" and that is a question I suppose of mixed fact and law and the exercise of judgment. In the first case the department—the deputy minister—will come to a conclusion as to what is reasonable. If the taxpayer feels the deputy minister is wrong and his decision is wrong, then the taxpayer goes to the Income Tax Appeal Board and the Income Tax Appeal Board exercises its judgment. If the taxpayer is still dissatisfied he goes to the Exchequer Court. We felt that was giving the taxpayer the best break possible.

Mr. HAZEN: I have in mind a case—in re Hotchkiss—involving the question of whether it is capital or income which is going to pay for maintenance. Are you going to pay it out of capital or out of income?

Mr. JACKETT: Is this subsection 2?

Mr. HAZEN: Subsection 2, yes.

Mr. JACKETT: As I understand it, it is designed to deal with a case which has occurred very rarely, where the widow is left with a huge house or an estate of some kind and only a very small income, and there is a trust whose duty it is to maintain the house for her. On ordinary principles all the cost of maintaining the house for her would be charged up as income, but this section is designed to enable the department to say that it is not reasonable for her to pay tax on income of that kind and to cut down the amount that will be charged up in respect of that maintenance. There have only been sixteen or eighteen cases of that kind altogether.

Mr. HAZEN: Do you always pay this out of income or pay it out of capital if the income is small? For maintenance of property do you ever apply capital?

Mr. JACKETT: I think on legal principles it would be income in her hands whether it was taken out of capital or not.

The CHAIRMAN: Section 61.

Mr. FULTON: The question I asked with respect to section 60 as to whether there was a substantial change should have been asked on section 61.

Hon. Mr. ABBOTT: I do not think there has been any substantial change here. There may have been a change in the language but I think the provisions with respect to personal corporations are substantially the same. We do not consider it a change but perhaps Mr. Jackett could explain.

Mr. JACKETT: There was a provincial court of appeal decision to the effect that once a son or daughter left the family home they ceased to be a member of the family for the purposes of similar provincial provisions, and we tried to make it clear here that a personal corporation does not cease to be a corporation merely because of the fact the daughter leaves home.

Hon. Mr. ABBOTT: With the greatest respect for the Alberta courts I felt that was not the law we should apply with respect to income tax anyway.

Mr. MACDONNELL: I was going to ask about 61 (1), it says, "the income of a personal corporation, whether actually distributed or not, shall be deemed to have been distributed to"—and so on. Does that mean gross income? In a proper case would there be any reduction for setting up a reserve?

Hon. Mr. ABBOTT: No, there is no allowance for reserves in a personal corporation.

Mr. JACKETT: I think the original word "income" goes back to the rules that are set out there.

Mr. MACDONNELL: Would it be the same principle as in there?

Mr. JACKETT: There is no different principle in this act.

Mr. FULTON: I think there has always been objection to the practice of double taxation. Does that apply here?

Mr. JACKETT: The principle purpose of this provision is to eliminate double taxation.

Mr. FULTON: It says, "the income of a personal corporation, whether actually distributed or not, shall be deemed to be distributed to—

Mr. JACKETT: Read subsection 2.

Mr. FULTON: I do not understand—

Mr. JACKETT: A personal corporation pays no tax at all as a corporation.

Hon. Mr. ABBOTT: This is the type of corporation that does not pay the 30 per cent corporation tax; if the shareholders were all members of one family within the terms of the definition; if the type of asset comes within the definition, then it can be qualified as a personal corporation. No corporation tax is payable with respect to the income of the corporation, but the shareholders are considered as having received that income during the year. In other words, a personal corporation is treated in fact as though it were a partnership. That is the shortest explanation.

Mr. JACKMAN: I have a question with respect to the definition of personal corporation. The section reads:

(8) In this act, a "personal corporation" means a corporation that, during the whole of the taxation year in respect of which the expression is being applied,

(a) was controlled, whether through holding a majority of the shares of the corporation or in any other manner whatsoever, by an indi-

vidual resident in Canada, by such an individual and one or more members of his family who were resident in Canada or by any other person on his or her behalf.

- (b) derived at least one-quarter of its income from
 - (i) ownership of or trading or dealing in bonds, shares, debentures, mortgages, hypothecs, bills, notes or other similar property or an interest therein,
 - (ii) lending money with or without securities,
 - (iii) rents, hire of chattels, charterparty fees or remunerations, annuities, royalties, interest or dividends, or
 - (iv) estates or trusts, and
- (c) did not carry on an active financial, commercial or industrial business.

The point I want to make is this, where are you going to make the distinction, to draw the line?

Hon. Mr. ABBOTT: A person lends money when they buy a bond or a debenture or a mortgage. The point is they are not in a commercial business, they are not buying or selling goods or that sort of thing. It is looked on primarily as the investments of an individual or all the members of his immediate family; investments not in commercial enterprises but in such things as securities, stocks and bonds, notes, mortgages and the like.

Mr. JACKMAN: And that would not include lending money?

Hon. Mr. ABBOTT: If it were lending money it would have to be registered as a loan company.

Mr. FULTON: To put my question in somewhat concrete form, I do not understand why this provision should be applied with respect to a lending company.

Hon. Mr. ABBOTT: It is not a lending company, it is a private holding company, a personal holding company. These companies are companies which individuals form for the purpose of putting all their personal investments into one basket. Now, there are several limitations to that; they have to be owned by members of the immediate family, cannot even be brothers or sisters who could form a personal corporation; it has to be a man, his wife and his children. That is the first limitation. Then, the type of asset which the company can have is fairly restricted. As I say, the purpose of the thing is to enable the family if it so wishes to have its family investments in whatever they may be—bonds, stocks and so on—held by a personal corporation without paying the corporation tax and personal income tax. It is provided so they can use it for holding their investments in a corporation form of set-up.

Mr. FULTON: It does not really enable them to do business.

Hon. Mr. ABBOTT: No, they cannot carry on business. They are prohibited from doing that by this section.

The CHAIRMAN: Section 62, investment companies.

Hon. Mr. ABBOTT: There is no change there.

The CHAIRMAN: Carried.

Section 63.

Carried.

Section 64.

Carried.

Section 65.

Carried.

Section 66.

Mr. FULTON: Is there any change at all in section 66? Is it the old section 14 without any changes?

Hon. Mr. ABBOTT: There was an amendment in the bill in the last budget. What was the amendment, Doctor Eaton?

Mr. EATON: There was an amendment to the Income War Tax Act, and this three-year exemption, the first section, was amended. Subparagraph (c) required previously that all members be individuals. It was objected, that in some small communities they had other bodies, small corporate bodies, who wanted to belong to a co-operative, so the requirement in the case of individuals was dropped from 100 down to 90 per cent; also, that 10 per cent of the shares might be held by local bodies or societies.

Mr. ISNOR: And this makes provision for including organizations other than individuals as well? This does not apply to non-members?

Mr. EATON: These are not non-members. They are members the same as any other member of the co-operative. They are not individuals, they may be a corporate body or an association or a group rather than the share being held in the name of a single individual.

The CHAIRMAN: Section 67.

Carried.

Section 68.

Hon. Mr. ABBOTT: There are two amendments proposed here, Mr. Chairman. The first is a minor drafting amendment to paragraph (d) of section 1. The section as it now stands reads:

- (1) Notwithstanding anything in this Part, there may be deducted, in computing income for a taxation year, the aggregate of the payments made, pursuant to allocations in proportion to patronage, by a taxpayer.
- (a) within the year or within 12 months thereafter to his customers of the year.

And subsection (b) says:

(b) within the year to his customers of a previous year; and I want to insert there the words, "or within 12 months thereafter" in the paragraph so it will read as follows:— paragraph (a) which I have read above; and then

(b) within the year or within 12 months thereafter to his customers of a previous year.

That is the act as it stands now. It was omitted through inadvertence in the printing of this act as it is before you. This will make it as it stands now in the Income War Tax Act.

Mr. BENIDICKSON: Then there is no change?

Hon. Mr. ABBOTT: No, it was an oversight.

Mr. MARQUIS: It is the same as it was last year.

Hon. Mr. ABBOTT: Yes.

The CHAIRMAN: You have heard the amendment. Shall the amendment to subsection (b) of section 1 carry?

Carried.

Hon. Mr. ABBOTT: There is another amendment which is of more substance. It relates to the definition of payment as contained in paragraph (e) of subsection 4, and it is to give effect to what has been the practice of the Department of National Revenue in accordance with rulings which they have been issuing.

Mr. ISNOR: Are you going to read the amendment?

Mr. MACDONNELL: May I just ask the question first? Is the section as it stands now being changed; is there a change from the existing law; and, is the change that we are getting now the only change?

Hon. Mr. ABBOTT: This will be the only change from the existing law. That is correct. Perhaps you might read the amendment and explain it. I ask Mr. Jackett to do it because it is pretty technical.

Mr. JACKETT: Paragraph (e) of subsection (4) extends the meaning of "payment" for the purpose of deductions under this section by including the issuance of certificates or shares to the taxpayer providing the taxpayer redeems certificates or shares of an equivalent amount in the year or within 12 months thereafter. Certain questions have arisen as to whether, for example, set-off debts are payment, as to whether loans advanced by members to the corporations, and where dividends are used to effect the advance, can be regarded as payment for the purposes of this section. It is, therefore, to resolve these doubts along the lines that the department resolved them when they were asked for an interpretation that it is proposed to revise paragraph (e) to say that payment includes first—and then you have exactly the same words that are in paragraph (e) (1) at the moment. Then,

(2) The application by the taxpayer of an amount to a member's liability to the taxpayer—

Mr. FULTON: Read this so we can take it down or read it over first and then read it slowly.

Mr. JACKETT:

The application by the taxpayer of an amount to a member's liability to the taxpayer (including, without restricting the generality of the foregoing, an amount applied on account of a loan from a member to the taxpayer and an amount applied on account of payment for shares issued to a member) pursuant to a bylaw of the taxpayer, pursuant to statutory authority or at the request of the member, or—

Mr. FULTON: You have not got mimeographed copies, have you?

Mr. JACKETT: I am sorry, I have not.

Hon. Mr. ABBOTT: If the members will look at their copy of the bill first at the appropriate section; the first part has not been changed.

Mr. FULTON: "Payment includes (1)"—

Hon. Mr. ABBOTT: Then put in (1).

Mr. JACKETT: Then, (2)—

The CHAIRMAN: Gentlemen, excuse me, before you do all this writing. It is now five minutes to 10. We adjourn at 10 o'clock. Why could we not have copies of this typed out?

Mr. BENIDICKSON: This is what we are getting telegrams about, the changing of this particular section.

The CHAIRMAN: Shall we meet in the morning or afternoon? Shall we meet at 3.30 in the afternoon in this room?

Discussion *re* adjournment.

The committee adjourned to meet at 3.30 p.m. on Thursday, June 17, 1948.

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CAIXE 13
- Bill
HOUSE OF COMMONS

STANDING COMMITTEE

ON

BANKING AND COMMERCE

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 15

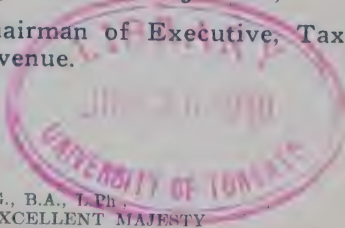
Consideration of
Bill No. 338,
intituled:
An Act respecting Income Taxes

THURSDAY, JUNE 17, 1948

WITNESSES:

Hon. D. C. Abbott, Minister of Finance;
Dr. A. K. Eaton, Assistant Deputy Minister of Finance;
Mr. W. R. Jakkett, Assistant to the Deputy Minister of Justice;
Mr. Charles Gavsie, Co-ordinator and Chairman of Executive, Taxation
Division, Department of National Revenue.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., J. Ph.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1948



REPORT TO THE HOUSE

THURSDAY, June 17, 1948.

The Standing Committee on Banking and Commerce begs leave to present the following as its

SEVENTH REPORT

Your Committee has considered Bill No. 338, An Act respecting Income Taxes, and has agreed to report same with amendments.

A printed copy of the Minutes of Proceedings and Evidence in connection therewith is tabled herewith.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, Room 430,

THURSDAY, June 17, 1948.

The Standing Committee on Banking and Commerce met at 3.30 o'clock p.m. The Chairman, Mr. Hughes Cleaver, presided.

Members present: Messrs. Abbott, Belzile, Benidickson, Breithaupt, Cleaver, Dionne (*Beauce*), Fleming, Fraser, Gour (*Russell*), Harkness, Hazen, Isnor, Jaenicke, Lesage, Marquis, Michaud, Nixon, Pinard, Rinfret, Timmins.

In attendance: Hon. J. J. McCann, Minister of National Revenue; Mr. A. K. Eaton, Assistant Deputy Minister of Finance; Mr. W. R. Jackett, Assistant to the Deputy Minister of Justice; Mr. Charles Gavsie, Co-ordinator and Chairman of Executive, Taxation Division, Department of National Revenue.

The Committee resumed the adjourned consideration, clause by clause, of Bill No. 338, An Act respecting Income Taxes.

The Minister of Finance, Hon. D. C. Abbott, a member of the Committee, assisted by Messrs. Eaton, Jackett and Gavsie gave information sought as each clause of the Bill was reached.

Clauses 69 to 72, both inclusive, were adopted without amendment.

On Clause 73

On motion of Mr. Abbott, it was

Resolved,—That it be recommended that the words "in the products thereof or" be inserted after the word "interest" in the third line of subsection (1) of clause 73 of Bill 338;

And that it be recommended that subsection (2) of the said clause 73 be revised to read as follows:

(2) This section does not apply to an interest in the products or in the proceeds from the sale of the products of an oil or gas well which the owner of mineral rights in the land on which the well is situated may have by reason of his having leased, sold or agreed to sell the mineral rights to the trustee or other operator or to a person from whom the trustee or other operator acquired them.

Clause 73, as amended, was adopted.

Clauses 74 to 98, both inclusive, were adopted without amendment.

On Clause 99

On motion of Mr. Abbott, it was

Resolved,—That it be recommended that subsection (1) of clause 99 of Bill 338 be revised by inserting the following phrase into the third line after the words "he may":

"within 2 years from the end of the taxation year,".

Clause 99, as amended, was adopted.

Clauses 100 to 116, both inclusive, were adopted without amendment.

Clause 117 was allowed to stand.

Clause 118 was adopted, without amendment.

On Clause 119

On motion of Mr. Abbott, it was

Resolved,—That it be recommended that clause 119 of Bill 338 be amended by adding the following subsection thereto:

(3) Where a person has been convicted under this section of failing to comply with provision of this Act or a regulation, he is not liable to pay a penalty imposed under section 51, section 122, or section 117 for the same failure unless he was assessed for that penalty or that penalty was demanded from him before the information or complaint giving rise to the conviction was laid or made.

Clause 119, as amended, was adopted.

Clauses 51 and 117 were adopted, without amendment.

Clauses 120 to 125, both inclusive, were adopted without amendment.

Clause 126 was allowed to stand.

Clauses 127 to 130, both inclusive, were adopted without amendment.

On Clause 131

On motion of Mr. Abbott, it was

Resolved,—That it be recommended that clause 131 of Bill 338 be revised by inserting the expression “, unless otherwise specifically provided,” after the word “are” in the third line thereof.

Clause 131, as amended, was adopted.

On Clause 57(1) (e)

After further consideration this paragraph which has stood from the previous sitting was adopted without amendment.

Clause 57, as amended previously, was then adopted.

On Clause 126

On motion of Mr. Abbott, it was

Resolved,—That it be recommended that clause 126 be amended by inserting the word “main” between the words “the” and “purposes” in the second line of subsection one thereof, and between the words “the” and “purposes” in the second line of paragraph (b) of subsection five of the same clause.

Clause 126, as amended, was adopted, on division.

In the course of the debate on Clause 126, representations made by the Toronto Board of Trade and the Canadian Tax Foundation were brought to the attention of the members.

At 6.00 o'clock p.m. the Committee adjourned to sit again in the evening at 8.30 o'clock.

EVENING SITTING

The Committee resumed at 8.30 o'clock p.m. The Chairman, Mr. Hughes Cleaver, presided.

Members present: Messrs. Abbott, Belzile, Breithaupt, Cleaver, Dionne (Beauce), Fleming, Fraser, Fulton, Gillis, Gour (Russell), Hackett, Hazen,

Irvine, Isnor, Jaenicke, Lesage, Macdonnell (*Muskoka-Ontario*), MacNaught, Michaud, Nixon, Rinfret, Timmins.

In attendance: The departmental officials who are listed in attendance at the evening sitting.

The Committee resumed the adjourned consideration clause by clause, of Bill 338, An Act respecting Income Taxes.

On Clause 57

On motion of Mr. Fulton, it was

Resolved,—That clause 57 would be reconsidered.

After a brief debate thereon, clause 57, as previously amended, was finally adopted.

On Clause 126, as amended.

On motion of Mr. Fulton, it was

Resolved,—That the Committee reconsider clause 126.

In this connection, the Chairman informed the Committee of representations made with regard to clause 126 by the Taxation Committee of the Canadian Bar Association.

After considerable debate thereon, clause 126, as previously amended, was adopted, on division.

On Clause 68

The Chairman informed the Committee that telegrams had been received from the following:

1. Canadian Federation of Farm Equipment Dealers, Danby Hannah, President.

2. Saskatchewan Wholesale Implement Association, Regina Section.

3. Saskatchewan Wholesale Implement Association, Northern Section,
R. A. Matheson, President.

4. Alberta Wholesale Implement Association, North Alberta Section.

5. William E. Hall, Secretary Treasurer, Alberta Wholesale Implement Association.

6. A. C. Thompson, Canadian Manufacturers Association, Toronto.
all voicing protests against certain provisions of clause 68.

After considerable discussion, Mr. Abbott moved that the amendment to clause 68, as read by Mr. Jackett at the evening sitting of the Committee on June 16, be adopted, with the following changes, namely:

(1) That the words "on account of a loan from a member to the taxpayer" in the fourth and fifth lines of sub-paragraph (ii) of paragraph (e) subsection four thereof be deleted and the following substituted therefor: "In fulfilment of an obligation of the member to make a loan to the taxpayer;"

(2) That the words "or property" be added at the end of paragraph (h) of subsection four of clause 68.

And the question having been put on the proposed amendment, as amended, by Mr. Abbott, it was resolved in the affirmative on the following division:—
Yeas, 8; Nays, 5.

Clause 68, as amended, was adopted.

The preamble and title thereof having been adopted, Bill 338, "An Act respecting Income Taxes", was ordered to be reported, as amended, to the House.

At 10.55 o'clock, p.m., the Committee adjourned to meet again at the call of the Chair.

ANTOINE CHASSÉ,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
June 17, 1948.

The Standing Committee on Banking and Commerce met this day at 3.30 p.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: We are on section 69.

Hon. Mr. ABBOTT: Section 68 is standing. We are dealing with that this evening.

The CHAIRMAN: Shall section 69 carry?

Mr. FRASER: Just a minute. On this section I have had a brief handed to me. It is too long for me to go over now. It is in regard to annuities.

Hon. Mr. ABBOTT: This is not that.

Mr. FRASER: Well, superannuation. That is section 71, is it? Annuities are section 71?

Hon. Mr. ABBOTT: Yes.

Mr. HAZEN: Is this similar to the present Act?

Hon. Mr. ABBOTT: Yes; it has been widened slightly, I am told, but it is substantially identical.

The CHAIRMAN: Carried. Section 70; is it carried?

Carried;

Section 71?

Mr. FRASER: On this one I have a brief, but it is too long to read.

The CHAIRMAN: Would you care to give the committee the gist of it?

Mr. FRASER: In going through it I find that it is really a personal case. This man is objecting to the government not exempting his annuity which he took out in 1936.

The CHAIRMAN: Are you for it or against it?

Mr. FRASER: Well, I have not had a chance to go through it.

The CHAIRMAN: Carried.

Hon. Mr. ABBOTT: Would you care to discuss that with my officers?

Mr. FRASER: I would like to give it to the minister now so that he can discuss it with his officers.

Hon. Mr. ABBOTT: All right, I will have Dr. Eaton look into it. He is a specialist in these matters.

Mr. FRASER: It is from Mr. McNair of Hamilton. I believe he has already taken the case up with the department.

Hon. Mr. ABBOTT: We will look at it again.

The CHAIRMAN: The former manager of the Royal Trust Company at Hamilton. Is section 71 carried?

Mr. FRASER: It looks as though it had a lot of merit in it.

Mr. HAZEN: What does section 71 provide? What is the effect of it?

Hon. Mr. ABBOTT: I will ask Mr. Jakkett to answer that.

Mr. JACKETT: Prior to 1932 government annuity contracts could be entered into up to a maximum of \$5,000 a year and were free of income tax. After that

date they were cut down to a maximum of \$1,200 tax free and in 1940 the tax-free feature was removed and this provision is to continue the tax-free feature with respect to contracts entered into prior to 1940.

Mr. HAZEN: Is that up to \$1,200?

Mr. JACKETT: Up to \$1,200. If it was between 1932 and 1940, and up to \$5,000 for contracts taken before 1932.

Mr. FRASER: But the contracts the government signed with people at that time, say in 1936, right at the bottom of the contract, indicated that income from Canadian government annuity was exempt from federal income tax and could not be levied against or seized by any law or court. Despite that you charge income tax on it.

Mr. JACKETT: Only on annuities issued after the date the tax-free feature was removed. The exception is that under the same contracts, if they have come to the government and paid an additional amount for more annuity then that increased portion of the annuity is taxable.

Mr. FRASER: But if you signed a contract, say in 1936, and a man was to pay into the government so much a year you come along and claim tax on that because he has not paid up the whole annuity?

Mr. JACKETT: If he was paying in accordance with the contract entered into at the time it is not so. It is only where a man has increased the amount.

Mr. RINFRET: And only for the increase.

Mr. JACKETT: Yes.

Mr. FRASER: Only for the increase?

Mr. JACKETT: That is right.

Mr. FRASER: Does that apply also on insurance annuities?

Mr. JACKETT: They have to be like government annuities.

Mr. FRASER: Most of the insurance annuities are that way are they not?

Mr. JACKETT: It is a question of fact as to what is a like annuity.

Hon. Mr. ABBOTT: A lot of insurance annuities have other features in them and it would be a question of fact. It has become a dead issue now because we no longer permit tax exempt annuities, and have not done so since 1940.

Mr. FRASER: What about one taken out before 1940

Hon. Mr. ABBOTT: It would be something for interpretation by appropriate legal authority.

Mr. FRASER: I have an annuity myself which will pay \$100 a month as soon as I am old enough. Would that be exempt?

Hon. Mr. ABBOTT: I could not tell you without looking at the annuity but perhaps you could consult Mr. Lesage or Mr. Hazen who are still in the legal business and I am sure they will give you a sound opinion.

Mr. FRASER: I am very glad to hear the minister say that because the minister did not agree with one of those gentlemen yesterday.

Hon. Mr. ABBOTT: He was pleading as an advocate yesterday.

Mr. HAZEN: If I took out a government annuity for \$5,000 between May 20, 1942 and June 5, 1940—

Hon. Mr. ABBOTT: You could not do it because the statute was amended to cut down the amount you could take to \$1,200.

Mr. HAZEN: If I bought an annuity prior to 1932 for \$5,000 do I pay tax on that \$5,000 now under the section?

Hon. Mr. ABBOTT: No, this section preserves existing contracts. The amendments were not made retroactive.

Mr. HARKNESS: What about the case of a man taking out an annuity at that time. I took out one myself, I think it was in 1929. You could pay in a

larger amount at any time and increase the annuity. Are those things taxable or not?

Mr. JACKETT: They are if the option was exercised—actually the exemption was taken off those annuities arising through the taking of the option which makes them taxable.

Mr. HARKNESS: The increase?

Mr. JACKETT: Yes.

The CHAIRMAN: Shall section 71 carry?

Carried.

Section 72.

Mr. JAENICKE: Why does this not include inventors as well as authors?

Hon. Mr. ABBOTT: We have had no representations from inventors. The authors asked for it and made what seemed to be a sound case.

Mr. JAENICKE: It looks all right to me, but an inventor may work for even more than two or three years.

Hon. Mr. ABBOTT: That may be possible and probably someone will come along later and ask for consideration.

Mr. JAENICKE: Unless you could include them under "artistic".

Hon. Mr. ABBOTT: There is a difference in the case of an inventor. An inventor very often gets a royalty over the life of the patent, for 17 years or whatever it is. There is a method for dealing with them.

Mr. JAENICKE: Authors might too.

Hon. Mr. ABBOTT: Yes, but in the case of an author it is very often true that the income is concentrated in a year. In the case of a new book the big sales are in a limited period. It is not necessarily the case however, with an inventor.

Mr. JAENICKE: This only applies to the assignment of the copyright outright?

The CHAIRMAN: Shall the section carry?

Carried.

Section 73?

Mr. HARKNESS: I do not understand the import of the second part.

Hon. Mr. ABBETT: Subsection (2)?

Mr. HARKNESS: Yes. "This section does not apply to an interest in the proceeds of sale of the products of an oil or gas well which the owner of the mineral rights in the land on which the well is situated may have by reason of his having leased the mineral rights to the trustee or other operator".

Hon. Mr. ABBOTT: There is an amendment which I will read and then I will ask Mr. Jackett to explain the section. There is a minor amendment to subsection (1) in which it is proposed that the words "in the products thereof or" be inserted after the word "interest" in the third line of subsection (1). It will then read "where an oil or gas well is operated under an arrangement whereby a person other than the operator has an interest in the products thereof or in the proceeds of sale—". This is in the nature of a drafting amendment and subsection (2) is to be revised to read as follows:

(2) This section does not apply to an interest in the products or in the proceeds from the sale of the products of an oil or gas well which the owner of mineral rights in the land on which the well is situated may have by reason of his having leased, sold or agreed to sell the mineral rights to the trustee or other operator or to a person from whom the trustee or other operator acquired them.

Would you explain that, Mr. Gavsie?

Mr. GAVSIE: Dealing with the second part first, subsection (2); the purpose of this section is to exclude from the provisions of this section what are commonly called head royalties. In other words you have the case of say a farmer

who either leases or agrees to sell those mineral rights to an operator. The purpose of this section is to exclude from the operation of the section royalties which would be paid to the farmer. Those royalties would be taxed in the usual way under the provisions of the Act. This section provides that where an oil well is operated and the proceeds of the well are handed to a person who under this section is called a trustee and is distributed by him, that person is regarded as being a corporation and taxed as a corporation, because those operations are normally done through a corporation and the purpose of the section is to prevent the operation being set up in such a way as to escape the normal corporation taxes. This section is not intended to apply to the head royalties payable to the farmer and it is put in to make it clear that the farmer's royalties are not subject to its operation and would not be included in the amount upon which corporation taxes are applied.

Mr. HARKNESS: You say the farmer's royalty is taxed. I presume that is under section 6?

Mr. GAUSIE: It is income tax in the same way as any income.

Mr. HARKNESS: I did not know whether to bring this up under section 6 or under this particular section but it does not seem to me that the royalty which the farmer gets for oil found on his land should be taxed because it is not in my opinion income but it is a capital asset. The farmer owns the land and the minerals beneath it. His minerals are exhausted and it is not income it is the wasting of his capital assets. As soon as the oil is all gone he has completely lost that capital asset and he is finished. As the thing operates now he gets his share out of the ground and it is looked upon as income and taxed as income but it seems to me that is wrong.

The CHAIRMAN: Are you arguing that he should have a depreciation?

Mr. HARKNESS: I am arguing that his capital is being wasted and the return he gets, his capital return, should not be income. The same thing essentially applies to a man who has a gravel pit. When he sells the gravel it is looked upon as income and he is taxed on it but actually once he has sold it it is gone and he has exhausted his capital asset and he has not got income in the proper sense of the word.

Hon. Mr. ABBOTT: This question as you probably know has been considered year after year both here and in other taxation jurisdictions where oil wells exist. There is a 25 per cent depletion rate for the farmer you referred to both here and in the United States. It is true he is subject to tax but this depletion allowance is made. The point which you put forward is an arguable one.

Mr. HARKNESS: Up to the present time the situation has not been acute in Alberta because the number of farmers who owned the mineral rights in Turner Valley where the oil was originally found was very small but now in the case of the Leduc field and a large part of the plains area where oil is likely to be found a lot of farmers do own the mineral rights and the question is going to become increasingly acute. Those persons feel very strongly on the matter. They are losing the entire capital because it is being treated as income and they are being taxed on it. I know one man who has at the present an income of something like \$700 a day but in three or four years time he will be getting nothing. In the meantime he is paying an enormous tax rate.

Hon. Mr. ABBOTT: He would be getting the 25 per cent depletion allowance on that \$700.

Mr. HARKNESS: It creates some inequity in this way. The farmer next door has leased his land on the same royalty basis usually $12\frac{1}{2}$ per cent, but a provision has been put in that the oil should not be exhausted within a certain number of years. In the latter case the income will last ten or fifteen years but in the first case it will last only two or three years. Both farmers will receive the same

amount of money if prices remain the same but one man will pay an enormously greater tax than the other. That is apart altogether from the main point that it should properly be looked upon as wasting capital rather than income.

Hon. Mr. ABBOTT: I do not know that I can make much of a comment. I have always found the discussion on the oil industry a bit confusing because I have no technical knowledge. I know that when we have it in the House I leave it to the experts. I remember once that I read off a long definition about a stratigraphic trap. It read very nicely when it came out in *Hansard*. I must confess I was not very clear myself just what a stratigraphic trap was.

Mr. HARKNESS: Has any consideration been given to this question? I am not talking of a corporation which is formed for the business of exploiting an oil well and so forth. I am talking of a farmer who owns the land and owns the mineral rights in that land. Has any consideration been given to the fact that the exploitation or disappearance of the mineral, in this case oil, in that land means the end of his capital interest in it?

Hon. Mr. ABBOTT: That is why he is given a special depletion allowance of 25 per cent.

Mr. HARKNESS: The matter is still looked on as income?

Hon. Mr. ABBOTT: A portion of it is looked upon as income.

Mr. HARKNESS: Instead of it being looked upon, as I think it should be, as capital. Has there been any real consideration given to that question where the line should be drawn?

Hon. Mr. ABBOTT: Oh, yes; it has been urged a great many times.

Mr. JAENICKE: What do you mean by this 25 per cent depletion allowance?

Hon. Mr. ABBOTT: As I understand it if he receives \$10,000 in royalties or otherwise 25 per cent of that is deducted before he pays tax.

Mr. JAENICKE: I think that is pretty fair.

Hon. Mr. ABBOTT: So do I.

Mr. JAENICKE: That makes provision for the very argument you put up.

Hon. Mr. ABBOTT: If one looked at it on a cost basis the first payment would cover the cost of the land to him.

Mr. HARKNESS: If you got rid of a quarter of your land every year, just sold it off, and at the end of four years your quarter section was gone you would not look upon it as very fair if the return you got was treated as income. You would think you had sold your farm and it was all capital. You had sold all your capital and you had nothing left at the end of the four years.

Mr. JAENICKE: But what about the mineral rights. I can compare that with a man who has not any mineral rights.

Mr. HARKNESS: That has nothing to do with the basic question as to whether it is capital or income.

Mr. JAENICKE: I think a depletion allowance of 25 per cent is very fair.

Mr. HARKNESS: You would not get much support among the farmers of Alberta for your view.

Mr. HAZEN: The point Colonel Harkness has brought up brings to my mind the case of the farmer who sells his stand of trees on stumpage as it is called. That has been a very sore point in the province of New Brunswick. When he has sold those trees the amount he receives is treated as income. Has there been any change made in the regulations?

Hon. Mr. ABBOTT: I do not think there has been as far as I know. Perhaps one of the departmental officials can answer that. I am not aware of any change having been made.

Mr. GAVSIE: If he sells it as standing timber we do not tax it.

Mr. HAZEN: Pardon.

Mr. GAUSIE: If he sells it as standing timber we do not tax it at all.

Mr. HAZEN: You do not tax it? You always have; you tax it as income. If he sells the stumpage, as it is called down there, and receives so much money for it you tax the money he receives as income for that year. That has been a very sore point down there. Has that been changed?

Hon. Mr. ABBOTT: I think what Mr. Gausie was referring to was when he sold the freehold, sold the land with the timber standing on it.

Mr. HAZEN: He does not sell the land; he sells the trees.

Hon. Mr. ABBOTT: The cutting rights.

Mr. HAZEN: The cutting rights over his wood lot. It has been a very sore point down there. I think it should be changed. The regulation should be changed if it has not been changed because what is happening is that they are just getting around it. If he sells the lot with the trees standing on it then that is capital and he is not taxed, but if he sells the standing timber and they come in and cut it then what he receives is treated as income.

Hon. Mr. ABBOTT: I understand that is the way the income tax department has interpreted it. If they are wrong the courts would reverse them. I do not think it has been tested. There is not any definition in the Act as to what constitutes profit in the case of timber operations of that kind. It would be a question for determination by the court in the final analysis as to whether an operation of that kind did constitute taxable profit or whether it did not.

Mr. HAZEN: I think it is most unfair to regard that as a man's income for one year, what he receives for something he has fostered and conserved and developed over a period of twenty years.

The CHAIRMAN: Why would he not be further ahead to sell the property outright and then after it has been lumbered to buy back the land?

Mr. HAZEN: I think that is what has happened in a great many cases. It is a way of getting around the law.

The CHAIRMAN: In that event the man who takes off the lumber would pay his proper tax.

Mr. HAZEN: If he sells the standing timber, the stumpage, for \$2,000 then he is taxed on the \$2,000.

Hon. Mr. ABBOTT: But the man who purchases it will have to pay tax on what he gets from cutting it off.

Mr. HAZEN: That depends on what his income is. Let us say that the owner sells those rights for \$5,000. He is taxed on an income of \$5,000, but if he turns around and instead of selling the stumpage he sells the whole thing for \$5,000 that is capital and he is not taxed.

Hon. Mr. ABBOTT: He has got to find a purchaser who is willing to pay \$5,000 for it and pay tax on the lumber he cuts off it.

Mr. HAZEN: What the purchaser is taxed on is what he makes out of his operation. He might not make anything.

Hon. Mr. ABBOTT: The man who is cutting the lumber can charge expenses, too, of course.

Mr. HAZEN: He can charge expenses.

Hon. Mr. ABBOTT: He can charge any expenses.

Mr. HAZEN: Just what his income would be I do not know. I think that matter should be investigated and a correction should be made because it has caused a great deal of indignation towards the government.

The CHAIRMAN: Why not send in a brief on that and have it before the minister's next budget?

Hon. Mr. ABBOTT: It would not require any budget change. It either is income or it is not.

Mr. HAZEN: It has caused a great deal of feeling. I know the government is not very popular among people who have to pay it. What is happening now is they are evading it by selling the land instead of the stumpage and then trying to get a deed back.

The CHAIRMAN: Section 74; carried?

Carried.

Section 75; carried?

Carried.

Section 76.

Mr. FRASER: Has the minister explained the authority for this new board?

Hon. Mr. ABBOTT: These sections are not new. There were two boards created, the income tax appeal board and the income tax advisory board, in the legislation of two years ago, 1946, I think. Neither board was set up. In view of the fact most of the ministerial discretions have been removed from this law the income tax advisory board as it was called—I think that was it—is no longer necessary and those provisions are being repealed. The income tax appeal board is being continued on very much the same basis as was originally suggested. There is a change in the number, the chairman and not less than two or more than four members. The reason for leaving that latitude in there was this. It was felt at the outset it would not be necessary to appoint a full board of six members, that we would start off slowly and see what work was involved, but it probably might be necessary later to have a somewhat larger board in order that it might be split into two sections. The committee will remember it is contemplated this board can travel about the country for the convenience of taxpayers and sit in different places. It might be desirable to have an appeal board in the west and one in the east, moving about. I might say at the outset it is contemplated there will be three members appointed, a chairman, a vice-chairman and one additional member.

Mr. FRASER: Why do you have a salary for the chairman of \$13,333.33?

Hon. Mr. ABBOTT: That is the salary of a judge of the Exchequer Court. That is what the president of the Exchequer Court receives by virtue of the increase which was given in judicial salaries last year, I believe it was.

The CHAIRMAN: In view of the minister's statement is the committee willing to carry sections 76 to 88?

Hon. Mr. ABBOTT: I do not think there is anything controversial in them.

Mr. FRASER: What sections were asked to be held over?

Hon. Mr. ABBOTT: Those are the controversial ones, 68—

The CHAIRMAN: I have a note of those and I will protect you on that.

Mr. HAZEN: May I ask about ministerial discretion in the Act? How much of it remains under this bill? How much of it is taken over by the appeal board, as you call it?

Hon. Mr. ABBOTT: None will be taken over by the appeal board. The appeal board will be in the position of the first court of appeal from the assessment by the minister. It does not exercise any discretions. It will function in law, at any rate, in exactly the same way that the Exchequer Court would function. It will be less expensive and perhaps a bit more informal in its hearings, but the judgments that it will give will be judicial findings, and the requirements for members of the board, or at least for the chairman and vice-chairman, are those required for a judge of the high court of a province.

Mr. HAZEN: Does it provide for a registrar and clerks?

Hon. Mr. ABBOTT: Yes, there is a staff. That was provided in the original—

Mr. HAZEN: Oh yes, here it is.

Mr. JAENICKE: A judge would not lose his superannuation standing?

Hon. Mr. ABBOTT: No. There is one variation from the original proposal, that a judge may be appointed to this board for a term period. The reason for that was that we thought it might be necessary in order to get the board established to borrow a judge from one of the provinces in order to get it going, but that he might not want to stay permanently with this tribunal and would prefer to go back to his provincial court. It is purely enabling. I do not know whether it will be found either possible or desirable at the outset, but we thought the power should be there in case it was needed.

Mr. JAENICKE: I think this is a much better idea here than what we had about the chairman of the board of transport commissioners a few days ago. I think this is a good idea.

The CHAIRMAN: Sections 89 to 95 deal with the Exchequer Court which is now the second court of appeal. Are there any questions on sections 89 to 95, page 61?

Mr. LESAGE: Is there an appeal from every decision of the appeal board?

Hon. Mr. ABBOTT: To the Exchequer Court, yes.

Mr. LESAGE: In any case?

Hon. Mr. ABBOTT: In any case in the same way there was from the assessment by the minister.

Mr. LESAGE: Whatever the amount may be?

Hon. Mr. ABBOTT: Whatever the amount. The security required is the same as before, namely, \$400 if it is to the Exchequer Court.

Mr. JAENICKE: No matter what the amount involved in the appeal the security for cost is \$400?

Hon. Mr. ABBOTT: In the Exchequer Court, yes, and \$15 to the income tax appeal board no matter what the amount is.

Mr. HAZEN: That provision for \$15 is in the bill some place?

Mr. JACKETT: Yes.

Hon. Mr. ABBOTT: Yes, is it section 81, page 58?

The CHAIRMAN: What about sections 89 to 95; Exchequer Court?

Hon. Mr. ABBOTT: I do not think there is any change in those sections. I will make sure. No, there are no changes. They are pretty much standard sections that have been in for a good many years.

The CHAIRMAN: Then are those sections carried?

Carried.

Section 96, non-resident.

Mr. FRASER: On this section, if a trust company was acting for an estate and they paid the money or deposited it in a Canadian bank they would have to deduct that 15 per cent just the same?

Hon. Mr. ABBOTT: If it is credited to the non-resident, yes.

Mr. FRASER: They would have to deduct it just the same?

Hon. Mr. ABBOTT: Yes.

The CHAIRMAN: Is section 96 carried?

Carried.

Section 97. Carried?

Carried.

Section 98. Carried?

Carried.

Section 99.

Hon. Mr. ABBOTT: We have a minor amendment to section 99, Mr. Chairman. The first part of section 99 now reads:

Where an amount has been paid during a taxation year to a non-resident person as rent on real property in Canada, he may file a return of income under part I,

and so on. After the words "he may" should be inserted the words "within two years from the end of the taxation year" so that it would read "he may within two years from the end of the taxation year file a return of income under part I", and so on. As the section stands now a non-resident would have an unlimited period of time within which to file a return, and two years seemed a reasonable period to put in.

The CHAIRMAN: Shall the minister's amendment carry?

Carried.

Section 100, gift tax.

Mr. JAENICKE: May I ask a question on section 99 about this tax on rentals for non-residents? Was there not some exemption some place on those rentals?

Hon. Mr. ABBOTT: I do not know of any. I will check.

Mr. JAENICKE: It may be just a matter of regulation. I thought it was if they did not amount to \$750, or something like that.

Hon. Mr. ABBOTT: We will check to see if there is anything. Perhaps you had better explain that, Dr. Eaton.

Mr. EATON: In the Income War Tax Act a non-resident person had the right to elect to have the net income from the property that was rented determined, and upon determination he still had a personal exemption to offset against that income. The law as revised drops that personal exemption. I think I might go on to explain the reason for that. The person is not living in Canada. He is not a part of our graduated system in Canada on the basis of ability to pay. We give to persons resident in Canada who are taxpayers that personal exemption on their world income, but here is a non-resident person renting property. We thought it proper he should be taxed without the personal exemption in view of the fact we were giving him beneficial treatment as compared to the person who gets 15 per cent taken straight off the gross rental payment. It is a little more severe than in the Income War Tax Act, but we thought it would be justified.

Hon. Mr. ABBOTT: He can claim credit, of course, in the other jurisdiction if that is permitted. In the case of the United States, for instance, the reciprocal arrangement provides that the tax he pays here he can deduct from his taxes there, so we have tried to make sure in the case of non-residents that we get as much as we are properly entitled to get since they can claim credit for it in their own jurisdiction, and it seems better we should get it.

Mr. JAENICKE: No matter how small the amount of rental is he will have to pay the 15 per cent tax?

Hon. Mr. ABBOTT: Fifteen per cent is withheld, yes. Then he has the option of filing a return on a net basis and paying tax without benefits of any exemption.

The CHAIRMAN: Section 100.

Mr. LESAGE: On this section, you are familiar with how most of the farm properties are transferred in Quebec?

Hon. Mr. ABBOTT: This only applies to non-residents.

Mr. LESAGE: Under section 100, gift tax?

Hon. Mr. ABBOTT: Oh, we are on 100 now.

Mr. LESAGE: Suppose a farmer has a farm which is worth with the implements \$5,000 and, as we say in French, and I will translate word for word, he gives himself to his eldest son under the condition that he and his wife are kept

until their death. The son then is the sole owner of the farm and he gets all the benefits. I wonder if that falls under the exceptions. Do I understand that if the farm is worth \$5,000 he will have to pay \$100?

The CHAIRMAN: There is \$4,000 deduction in the first instance.

Mr. LESAGE: I say the farm is worth \$5,000.

The CHAIRMAN: What is his life expectancy? There would be some value there deductible.

Mr. LESAGE: Would this be deductible?

Mr. HAZEN: Is it an absolute gift? If the son does not maintain the father—

Mr. PINARD: The donation is worthless. It is no good.

Hon. Mr. ABBOTT: It is fairly common practice. It is becoming less common, perhaps.

Mr. LESAGE: Still in Quebec.

Hon. Mr. ABBOTT: They make a donation of their property. It is really in contemplation of death. The old gentleman expects before long he will pass on to his fathers and he makes it subject to a charge that his son will provide him with clothing, shelter and nourishment for the rest of his life.

Mr. PINARD: Cabbages, tomaoes, and all that sort of thing.

The CHAIRMAN: May I ask a question on that?

Hon. Mr. ABBOTT: Mr. Jackett tells me under those circumstances the value of the gift would be the value of the farm less the value of those charges which are imposed on it, and you take the life expectancy of the father, I suppose.

Mr. LESAGE: That is quite all right, but I wanted to be sure that my farmers would not be prosecuted and they would not have to pay a penalty.

The CHAIRMAN: Is section 101 carried?

Carried.

Section 102. Carried?

Mr. HAZEN: Just a minute. I should like to ask a question. I have made some mention of this before. I have not got the figures before me but my recollection is that under the Succession Duty Act—of course, it has been changed now and we do not have to pay any duty under \$50,000—the rates were lower than they were under this section. Is that correct for equal amounts?

Mr. EATON: I believe sir, that under our succession duty rates as they were that it was more frequently found that the gift tax was above the succession duty than below. On the average I think there were more cases, depending upon the bracket they were in and so on, in which the gift tax was greater than the succession duty. In the meantime succession duty rates under dominion law have been doubled and the gift tax rates remained the same so I think that probably would be no longer true.

Mr. HAZEN: Would they be about the same now, the succession duty and the gift tax?

Mr. EATON: The succession duty rates have been doubled since these facts emerged.

Mr. HAZEN: Let us take from \$50,000 to \$75,000; the tax is 16 per cent. If that were succession duty what would it be?

Mr. EATON: It is very difficult—

Mr. HAZEN: It depends what class it goes to, and so on. We will suppose it goes to the son or daughter.

Mr. EATON: I am sorry, but I am afraid it would be difficult to make a quick calculation on that.

The CHAIRMAN: Would you send that information to Mr. Hazen and save the time of the committee.

Mr. HAZEN: What I have in mind is really this, that a person who gives a property can dispose of the property by his will or he can give it away during his lifetime. No matter which way he does it should he not pay about the same tax? Should the same tax not be imposed whether he does it by will or whether he does it in his lifetime? Is there any principle on which there should be a different rate?

Mr. EATON: I think it might be argued that the gift tax rate should be higher. I think there is a dual purpose of the gift tax.

Mr. HAZEN: What?

Mr. EATON: A dual purpose of the gift tax to protect income tax revenue and likewise to protect succession duty revenue. I think that if the purpose of the gift tax were merely to protect succession duty revenue it could be argued that the rate should be the same, but if in addition to that you have to protect against the loss of revenue through income tax then I think it could be argued it would be quite proper that the rate under the gift tax should be higher than the succession duty. As I say when succession duty rates were half of what they are now they were slightly above, but I think it follows now that the succession duty rates have been doubled that these rates are below possibly what they should be in order to serve the dual purpose to protect against revenue on the succession duties and revenue under income tax.

Mr. HAZEN: Up to \$1,000, or under \$1,000 there is no gift tax? A gift under \$1,000 does not pay tax?

Mr. EATON: That is correct. They do not count as gifts. They are not recognized as gifts.

Mr. HAZEN: Is there another provision about \$4,000?

Mr. EATON: That is correct. That is a straight exemption.

Mr. HAZEN: If I have four children and I give them each \$4,000 in one year would I have to pay gift tax on that?

Mr. EATON: There would be a gift tax on \$12,000. \$16,000 is being given away in four \$4,000 lots.

Hon. Mr. ABBOTT: Unless it did not exceed one-half the difference between your taxable income for the immediately preceding taxation year and the tax that was payable thereon. That is the other provision. It is \$4,000 or that ascertainable figure.

Mr. LESAGE: It is the amount given by the donor and not the amount received by the donee.

Hon. Mr. ABBOTT: Or beneficiary.

The CHAIRMAN: Can he not make as many one thousand dollar gifts as he wants to and they are not taxable at all?

Mr. EATON: That is correct. They just do not count.

Mr. LESAGE: Do you consider a donation with a resultory clause immediately as a gift, or do you wait until it has been proven the resultory clause will not happen, when the donation becomes final?

Hon. Mr. ABBOTT: Mr. Jackett probably does not know what a resultory clause is.

Mr. JACKETT: Subject to a condition. I have never had to face the problem.

Mr. LESAGE: I give you \$10,000 but it is understood if a certain thing happens you will give it back to me. When is it taxable, when it is acquired?

Mr. JACKETT: My offhand opinion would be it would be taxable immediately but you would have to take the substantive condition into consideration in determining the value of the gift.

Mr. LESAGE: Only in determining the value of the gift.

Mr. JACKETT: Yes.

Mr. LESAGE: Suppose the condition arises and there is no more gift and the \$10,000 has to be paid back. Will you pay back the tax?

Mr. JACKETT: Not at all.

The CHAIRMAN: I think you had better buy a sweepstake ticket.

Mr. LESAGE: No, no. I think this question is important because very often you see donations in Quebec with that provision.

Hon. Mr. ABBOTT: I understand people sometimes give gifts subject to certain conditions that the recipient does not marry again or something like that. That can happen. That is a more common provision under wills than it is under gifts *inter vivos*.

Mr. LESAGE: It has happened with donations.

Hon. Mr. ABBOTT: It could happen, yes.

Mr. LESAGE: If the receiver has to give back the money I think the tax should be refunded. Will you look at that?

Hon. Mr. ABBOTT: I am sure your opinion would be as good as Mr. Jackett's.

The CHAIRMAN: Are sections 103 and 104 carried?

Carried.

Section 105, administration.

Mr. FRASER: Subsection 3 of 105 means that the minister can extend the time for an individual or for the whole country?

Hon. Mr. ABBOTT: That is correct.

The CHAIRMAN: Carried.

Section 106.

Mr. HARKNESS: What about section 1(b), "prescribing the evidence required to establish facts relevant to assessments under this Act." Why is it necessary to have that in there?

Mr. JACKETT: That is put in so that where you have a common class of facts which are relevant in assessment such as, for example, gifts to charities, they can require them to submit receipts. That is actually spelled out in the Act, but for some things by regulation they can require the taxpayer to submit evidence with his return.

Hon. Mr. ABBOTT: I think it is really a relieving section rather than anything else. The strict rules of evidence are sometimes pretty rigorous, and here the idea is in connection with facts relevant to assessments the minister can prescribe what he will accept as evidence. He could accept a statutory declaration instead of a birth certificate. It is that sort of thing.

Mr. HARKNESS: All I was getting at was whether this was there for the purpose of enabling the evidence required to be of such a nature that it would be very difficult for the taxpayer to put it in.

Hon. Mr. ABBOTT: No, it is really for the other purpose.

Mr. HARKNESS: That is what I wanted to find out.

Hon. Mr. ABBOTT: That is why it is restricted to facts required in connection with the assessment and does not cover a broader field.

Mr. LESAGE: My experience proves to me that is right because in certain cases if we had had to give clear evidence on a certain taxpayer's right to exemption we would have been deprived of the exemption.

Mr. HAZEN: Why is the Governor in Council given authority under (h) to define the classes of persons who may be regarded as dependent for the purposes of this Act?

Mr. LESAGE: That is another relieving section.

Mr. HAZEN: Why are dependents not defined in the Act?

Hon. Mr. ABBOTT: Perhaps Mr. Jackett might explain why a little flexibility is needed there.

Mr. JACKETT: As everybody knows there is an administrative rule at the moment that if a child or other dependent does not have income exceeding \$400 it shall nevertheless be regarded as wholly dependent. There is no law in the Income War Tax Act for that. The department has taken it on themselves for practical reasons to lay down such a rule, and it was thought advisable they ought to be given some authority for overlooking what in effect is a substantial amount and really takes away the characteristic of being wholly dependent.

The CHAIRMAN: Shall the section carry?

Carried.

Section 106. Is it carried?

Carried.

Section 107, debts to His Majesty. Carried?

Carried.

Section 108. Carried?

Carried.

Section 109. Carried?

Mr. FRASER: Section 109 is not new?

Hon. Mr. ABBOTT: None of these are new.

The CHAIRMAN: Carried. Section 110. Carried?

Carried.

Section 111. Carried?

Carried.

Section 112. Carried?

Carried.

Section 113. Carried?

Carried.

Section 114. Carried?

Mr. FRASER: Just a minute. With reference to books and records, at the present time there are inspectors going around checking on different people whom they suspect are not paying their income tax. What authority have those people to look at the books of a taxpayer?

Hon. Mr. ABBOTT: Would you answer that, Dr. Eaton? What authority has an inspector to look at books of record for checking returns?

Mr. LESAGE: The authority is under section 115.

Hon. Mr. ABBOTT: Section 115, Mr. Fraser.

Mr. FRASER: I mentioned this in the House a year ago regarding inspectors who went into one office, and the doctor showed them his books and said, "There you are." He said, "Do you want anything else?" He said, "If you do just call me. I will be through with my patient in a few minutes." When he got through with his patient he came out and the inspectors had gone through his desk. What do you do in a case like that? They have not got the authority to do that, have they? I brought it up before in the House. They have no authority for anything of that kind.

Hon. Mr. ABBOTT: They should not do it.

Mr. FRASER: That is what I am getting at. The minister would not stand for it if he knew it.

Hon. Mr. ABBOTT: You know as well as anyone that when you have thousands of employees they sometimes exceed the bounds of propriety, but the

great majority, it is hoped, behave properly, and conduct themselves in the way they should. That is the sort of thing, as a lawyer knows, that should not be done without a search warrant.

Mr. FRASER: That is what this man thought, and he was very peeved about it. Eventually he got things straightened out and he did not owe any tax so he was all right.

Mr. JAENICKE: How many of these inspectors have you got? There is a rumour current in the country you have engaged a host of detectives and policemen and persons of that nature to go around the country and check up on people. I presume you have read that in the newspaper despatches.

Hon. Mr. McCANN: We have no detectives and we have no policemen and we do not maintain a gestapo.

Hon. Mr. ABBOTT: I thought that was propaganda against the government.

Mr. JAENICKE: I should like to know how many there are of these special investigation officers?

Hon. Mr. McCANN: Oh, the full force would be probably in the neighborhood of 150.

Mr. LESAGE: Not as many as we would have under a socialist government, anyway.

The CHAIRMAN: Order, gentlemen.

Mr. HARKNESS: Under section 114, what is the penalty for a man who does not keep books?

Hon. Mr. ABBOTT: We will be coming to the penalty sections. We are coming to those in just a minute.

Mr. HARKNESS: As far as this particular section is concerned what penalty is there?

Mr. JACKETT: A fine of not less than \$200 and not exceeding \$10,000 or an option of six months.

Mr. HARKNESS: What again is the situation of a farmer who cannot keep books, in some cases cannot write, and so forth? What do you do with him?

Hon. Mr. ABBOTT: I am sure the court would be very lenient in those circumstances.

Mr. HARKNESS: Do you actually exact that penalty?

Hon. Mr. McCANN: No.

Mr. HARKNESS: I am asking what the practice is.

Hon. Mr. McCANN: We never have. With anyone who is illiterate we have never exacted any penalty from them, but we require them to go and get somebody who can read and write to attempt to make a return for them.

The CHAIRMAN: Section 115. Carried?

Carried.

Section 116. Carried?

Carried.

Section 117, stand.

Hon. Mr. ABBOTT: That is one of those that are standing.

The CHAIRMAN: Section 118. Carried?

Carried.

Mr. HAZEN: Under section 117—

The CHAIRMAN: That section stands, Mr. Hazen. Section 119, stand.

Hon. Mr. ABBOTT: That stands, too.

The CHAIRMAN: Should section 120 stand as well?

Hon. Mr. ABBOTT: No, I do not think so.

The CHAIRMAN: Carried.

Mr. FRASER: I do not know whether it comes under this section, but I have brought up in the House the case of a grocer who has a business and his family take goods from the business and use them for their own food supply. I had a grocer at Peterborough tell me that the inspector came along and said, "Now, look, you have put this down at the wholesale price. You should have put it at the retail price." I think the grocer should be allowed the wholesale price because if he went out to some of the chain stores he would pay the retail price one day and the wholesale price the next day.

Hon. Mr. McCANN: It is never cut that thin.

Hon. Mr. ABBOTT: I am told it has never been cut that thin, and if that were done again it would be an excess of zeal on the part of the inspector. He should not do it.

Mr. FRASER: They came back on it.

Hon. Mr. ABBOTT: You give his name to the minister and I am sure that will be corrected.

The CHAIRMAN: Section 121. Carried?

Carried.

Section 122.

Mr. LESAGE: Is 119 carried?

Hon. Mr. ABBOTT: No, that is standing. We have stood over all the sections you are interested in.

The CHAIRMAN: Section 122. Carried?

Carried.

Section 123. Carried?

Carried.

Section 124. Carried?

Section.

Section 125. Carried?

Mr. ISNOR: Before you leave 124—

The CHAIRMAN: Did you say 134?

Mr. ISNOR: 124; I want to look that over.

Mr. LESAGE: Why is 123 necessary?

Mr. JACKETT: Because there is a provision in the Criminal Code for suspending sentence.

Mr. HAZEN: Why should not sentence be suspended in some cases?

Mr. ISNOR: Are we dealing with 124?

The CHAIRMAN: We will revert to 124.

Mr. ISNOR: I do not think it is a case of reverting. Will the officials refer to clause 9, please. Have you had any trouble in respect to proof of filing returns?

Mr. JACKETT: You say subsection 9?

Mr. ISNOR: I think it is subsection 9.

Hon. Mr. ABBOTT: Page 80?

Mr. ISNOR: Yes.

Hon. Mr. ABBOTT: That relates to proof of no appeal.

The CHAIRMAN: I think perhaps you are referring to subsection 6.

Mr. ISNOR: Yes, thank you, Mr. Chairman. Has there been any trouble in respect to that particular clause? I recall one case which was brought to my attention last year in which an individual claimed he had made a first and second return and there was still no recognition of his claim that he had so filed. What action do you take in a case of that kind?

Mr. GAVSIE: Filed a return or an appeal?

Mr. ISNOR: Filed a return. The return is what I have in mind.

Mr. GAVSIE: I should like if he produced evidence which would make it clear that he had actually filed his return there would not be any penalties placed on him. Now, the rule about when a return is filed is different, of course. If a return is mailed it will be accepted as of the time it is postmarked. If it is brought in there is a stamp put on it immediately it is handed over the counter. I presume you have reference to the case where something is lost in the mails or lost in the office.

Mr. ISNOR: It could be that.

Mr. GAVSIE: We would ask him to produce evidence by way of an affidavit to establish the facts.

Mr. ISNOR: You would accept that?

Mr. GAVSIE: If we were satisfied it was correct we would accept that and then he would file a new return and we would not impose any penalty for late filing or anything like that if we accepted that.

Mr. ISNOR: I do not want to make an extravagant statement but I am inclined to think he made a first and second and was requested to make a third. Certainly there was a second one, and they still insisted he should make a further return and would not recognize his claim that he mailed it on such and such a date, and a penalty was imposed.

Mr. GAVSIE: Mr. Fisher tells me in one case recently a man was prosecuted for failing to file a return. As a matter of fact, he had filed it and it had been lost and found and we are proceeding to remit the penalties that were imposed upon him.

Mr. ISNOR: Thank you very much.

The CHAIRMAN: Section 126, stand.

Hon. Mr. ABBOTT: Mr. Macdonnell wanted that to stand.

The CHAIRMAN: Section 127.

Hon. Mr. ABBOTT: This is a long section. It represents a lot of work on the part of the draftsmen.

The CHAIRMAN: Carried?

Carried.

Section 128. Carried?

Carried.

Section 129. Carried?

Carried.

Section 130. Carried?

Carried.

Section 131. Carried?

Hon. Mr. ABBOTT: There is a minor amendment to section 131 which should go in. It is a technical thing. The section reads:

Part II of this Act is applicable to amounts paid or credited after 1948 and the other provisions of this Act are applicable to the 1949 and subsequent taxation years.

After the words "other provisions of this Act" we want to insert the words "unless otherwise specifically provided", so that it would read "and the other provisions of this Act unless otherwise specifically provided are applicable to the 1949 and subsequent taxation years."

The CHAIRMAN: Carried?

Carried.

I will read out the list of the sections which have been marked stand, and if there are any omissions would you please call them to my attention now. Section 51; Section 57, subsection 1, paragraph (e); Section 68, Section 117; Section 120—

Mr. RINFRET: Section 119.

The CHAIRMAN: Section 119; Section 120; Section 126—

Mr. LESAGE: Section 120 was carried.

Hon. Mr. ABBOTT: Section 120 was carried.

The CHAIRMAN: Thank you. Shall we convene at 8.30? We promised these contentious sections would be taken up then.

Hon. Mr. ABBOTT: Perhaps we could dispose of section 57, subsection 1, paragraph (e). Colonel Harkness asked if we would consider his proposed amendment to include under the exemptions the income of what might be generally described as charitable trust. He proposed a suggested amendment. I considered that with the officers of my department yesterday and today, and I do not feel I can put in an amendment in those terms. All I can say is I will give some further consideration to see whether it would be possible to relax that in some way. I do not see at the moment how we can. I do not think I could extend it to allow an exemption for income of a charitable trust which is accumulating to be paid to the charity at some later date. That does not absolutely close the door to further representations, but all I can say now is I cannot agree to it at this time.

The CHAIRMAN: Shall the section carry?

Mr. HARKNESS: You have no alternative amendment which would cover the point either here or in any other place?

Hon. Mr. ABBOTT: I have not at the moment, at any rate, no.

Mr. HAZEN: Was it ever the law that a trust of that kind was exempt?

Hon. Mr. ABBOTT: Never.

Mr. HARKNESS: It was exempt until the old section, 114(4), which is presently section 58, was introduced. The reason a charitable trust of that kind was held to be taxable in the Burns case, at any rate, is because of the presence in the Act of section 11(4), I think it is, which was not there a few years ago.

The CHAIRMAN: Shall we take sections 117 and 119?

Hon. Mr. ABBOTT: I cannot accept the amendment now.

Mr. HARKNESS: We are still dealing with this matter. A question was asked as to whether the situation was that at one time the income accumulating in a charitable trust was not subject to tax. That was the situation until the old section 11 (4) came into the Act. It was on the basis of 11 (4) that a decisions was given against them in the Burns case.

Hon. Mr. ABBOTT: I will check to see when 11(1) came into the Act, and what it was.

Mr. HARKNESS: 11 (4). It is the same as 58—

Hon. Mr. ABBOTT: 58 (4).

Mr. HARKNESS: 58 (3) and 58 (4).

Hon. Mr. ABBOTT: I think it was 58 (4). I do not know when that came in. That certainly has been in there a good many years, in any event. Section 11, subsection (4) has been in the law for a good many years. I would have to go back to see how long ago that was.

Mr. HARKNESS: I know it was not in at the time this trust I have referred to was set up, and several others.

The CHAIRMAN: Shall section 57 carry?

Carried.

May we now take section 117?

Mr. LESAGE: Section 117 and 119 are all related. What I would propose there is the same amendment as I proposed to section 51.

Hon. Mr. ABBOTT: Would you let me have a copy of your amendment?

Mr. LESAGE: I can read what I have here. I would put at the beginning of the section—

Hon. Mr. ABBOTT: Which section?

Mr. LESAGE: Section 51, the following words,

Unless he has been prosecuted under section 119 of this Act for the same default as hereinafter set out, every person who has failed to make a return—

I would leave the rest of the situation as it is. I did not say convicted because if he is acquitted he is autrefois acquit.

Hon. Mr. ABBOTT: Would you put that at the beginning of section 51 or any appropriate place from a drafting point of view?

Mr. LESAGE: We could add at the end that this section does not apply to persons who have been prosecuted on the same ground under section 119.

Hon. Mr. ABBOTT: I will just have a word with the solicitors to see what their reaction is to your amendment, Mr. Lesage.

I had prepared a proposed amendment to section 119. If the members of the committee will look at section 119, I will read it. You will see that as this amendment is put in, it relates to these other sections. Section 119 is the penal section which provides, under the heading of offences, for conviction and penalties. I would not change the first two subsections but I would add the following subsection:

Where a person has been convicted under this section of failing to comply with the provisions of this Act or regulations, he is not liable to pay the penalty imposed under section 51, section 112 or section 117 for the same failure unless he was assessed or that penalty was demanded from him before the information or complaint giving rise to the conviction was laid or made.

The committee will appreciate that means if the person was assessed for the penalty and it was demanded from him, that is the penalty under section 51 and he failed to pay it, then he cannot be convicted under this section of failing to comply.

Mr. LESAGE: If he received the notice of penalty assessment before he was prosecuted—I think that is reasonable.

Mr. ISNOR: I think it gives reasonable protection, and it gives it all in one section.

Hon. Mr. ABBOTT: It meets your case, where a man might ignorantly be condemned and the penalty imposed and then they would impose a penalty on assessment under section 51.

Mr. LESAGE: That is it. I think the worst feature is that the penalty is imposed on a man after he has paid his fine and costs. However, if he is assessed for the penalty at first and doesn't pay the penalty, I do not see any objection to him being prosecuted and paying the fine. He did not pay the penalty he had to pay. I think that is only reasonable and fair.

Hon. Mr. ABBOTT: We could do it in the one section.

Mr. LESAGE: Would you need that third line of section 119, "in addition to any penalty otherwise provided"?

Hon. Mr. ABBOTT: It would still be necessary because of the exceptions, you see. I think the exception covers the case.

Mr. LESAGE: That is right. I think the amendment is fair.

Hon. Mr. ABBOTT: You might move that, Mr. Lesage. I will accept it.

The CHAIRMAN: You have heard the amendment to section 119. All those in favour?

Carried.

Shall the section as amended carry?

Carried.

Hon. Mr. ABBOTT: That leaves section 126. Could we take section 126, Mr. Macdonnell?

Mr. FRASER: In connection with section 126, I wonder if the minister took any notice of the letter he received from the Toronto Board of Trade?

Hon. Mr. ABBOTT: I have forgotten what representation the Toronto Board of Trade did make.

Mr. FRASER: They said,

As compared with bill No. 454 of last year, bill No. 338 reveals a tendency to revert to administrative rigidity and arbitrary control in several instances. This appears in perhaps its most extreme form in the changes made in the treasury board clauses appearing in section 126. It had been hoped that with the passing of abnormal war-time conditions the government would find it possible to dispense with a much greater measure of administrative rigidity and arbitrary control.

That is all they had to say about section 126.

Hon. Mr. ABBOTT: I think it is fair to say that a good many of the submissions, including the one you have mentioned, argued for the repeal of this section. It was a section which was put in during war-time to prevent tax evasion. It is quite a drastic section, of course, and recognized as such. I know it is very difficult for lawyers to advise their clients in connection with a particular transaction in view of the presence of this section in the Act. I remember I found it difficult, myself.

Mr. FRASER: Could it be modified?

Hon. Mr. ABBOTT: It is a section that has been put in to try to stop some of the things Mr. Hazen was complaining about last night.

Mr. HAZEN: I do not see why these things cannot be put in the Act itself.

Hon. Mr. ABBOTT: The devious ways of the income tax evader are so great it would take quite an Act to spell them all out.

Mr. HAZEN: We have had a good many years' experience now.

Hon. Mr. ABBOTT: By the time you get through a dozen companies—

Mr. HAZEN: We have had an Income Tax Act since 1917. We ought to have enough experience by now.

Hon. Mr. ABBOTT: By the time you go through companies formed in Panama, Nassau and what have you, the change in the character of the transaction is material. We find from experience there are some very ingenious tax lawyers and accountants floating about. There is an appeal, of course, to the Exchequer Court from the Treasury Board on this matter.

The CHAIRMAN: Shall section 126 carry?

Mr. MACDONNELL: No, Mr. Chairman.

Mr. ISNOR: In connection with section 126, is there any clause in this bill which directs a company which wishes reorganization along the lines suggested by Mr. Hazen last evening, or which gives the company authority to do so if the proposed plan is set forth? Is there any provision of that kind?

Hon. Mr. ABBOTT: I do not think there is anything in here which prevents a legitimate reorganization; nothing at all.

Mr. ISNOR: There might be a question in the mind of the taxpayer as to whether it is in conformity with the Act. He might possibly wish to divide his business into three branches; one, merchandising; another real estate and another agencies. He may believe that to be a little better set-up in so far as income tax purposes are concerned. With that in mind, he might take the proposition to the income tax office. Have you any regulation dealing with a case of that kind?

Hon. Mr. ABBOTT: With that set of facts, I would not think this section operated at all. Naturally, in those circumstances, the business man in question would want to consult his lawyer. He would say, "This is what I propose to do; is it in conformity with the law?" His lawyer would be able to tell him, I think.

Mr. ISNOR: I am not dealing with lawyers, but directly with the income tax department.

Hon. Mr. ABBOTT: Perhaps the income tax department would give an opinion, but that is not their function.

Mr. ISNOR: Supposing he divides his business in that way in 1947 and, in 1948, he shows his business operations under three separate headings. Those three headings would have to be explained to the income tax office.

Mr. GAVSIE: On occasions people do present a set of facts to the department and say, "If I do so and so what will my position be taxwise. Will I be subject to such and such a tax?" On occasion we do give an opinion. We are not obliged to do so under the Act, but to help out we do it occasionally.

Hon. Mr. ABBOTT: The practicing lawyers discourage that practice.

Mr. ISNOR: I raised that question because it is tied in with section 126, Mr. Chairman, and you may possibly avoid some trouble under that section.

Hon. Mr. ABBOTT: I think in a good many cases, where taxpayers are in some doubt as to whether section 126 would apply, they do just what Mr. Gavsie has indicated and present their case to the Department of National Revenue. They say, "We believe this is all right; we are telling you exactly what we propose to do but we would like you to say whether you consider, within the letter and the spirit of the law, it is all right."

Mr. MACDONNELL: Mr. Chairman, have you got a message from the Director of the Canadian Tax Foundation with regard to this Section?

The CHAIRMAN: I have a wire which I reported to the committee yesterday. I will read it.

Section 126 of bill 338 changes the existing law in section 32A of Income War Tax Act which was contained in bill 454 to read quote one of the purposes unquote instead of quote the main purpose unquote stop. It has been repeatedly objected against the existing provision that it casts a continuing cloud on legitimate transactions and prevents finality stop. The revised terms of bill 338 seriously aggravate these objections stop. As consideration of tax consequences where they arise is a necessary factor in any prudent business decision we respectfully request that this provision be reconsidered from standpoint of normal taxpayer and desired finality and clarity of the law.

Mr. MACDONNELL: I should like to make one or two observations in this connection. In the first place, I should like to recall to the minister what he said last night which I thought was very true. I think it was in commenting on something Mr. King Hazen said, and his words were something like this, no one is required to find ways in which he could pay taxes.

May I reverse that, and in commenting on it, I will read the first three lines of section 126.

Where the Treasury Board has decided that one of the purposes for a transaction or transactions effected before or after the coming into force of this Act was avoidance or reduction of taxes that might otherwise have become payable under this Act.

Now, I think I am one of the people who dislikes most improper, sharp and dishonest evasion of the tax law. Nevertheless, surely a reduction of taxes, and it says, "Avoidance or reduction"—surely there is no competent lawyer or chartered accountant in Canada who has not been legitimately consulted as to the form of corporate set-up which would result in a minimum of taxation within the law.

I observe that this telegram points out the rigour of this clause has been enormously increased through the change from "the main purpose" to "one of the purposes." It seems to me this is a very important section.

Hon. Mr. ABBOTT: I would not object to going back to the old wording. I may say I do not think it makes much difference.

Mr. MACDONNELL: If it does not make much difference, perhaps we should discuss it a bit further.

Coming back to the letter of which Mr. Fraser spoke, I should like to read a little more of it because there is a question raised which it was said, when this committee began a few days ago, might arise. I will just refer to part of it. The letter refers to the provisions of section 126. It is suggested that the provisions are harsh and unnecessary. Then the letter continues:

The board feels that the representations of the business community on the features mentioned above should be incorporated into bill No. 338 to a substantially greater extent than is the case. It, therefore, requests that it be given an opportunity to present its views on these matters when the bill is in the committee stage. This will enable the members of the House committee concerned to hear these recommendations and the reasons for them direct from representatives of business interests.

Now, it seems to me the fact you have this telegram from the Canadian Tax Foundation which is a very respectable organization, and the fact that they are questioning this—by the way, the telegram continues, if you will remember and speaks in rather general terms of certain facts. It reads,

—it has been repeatedly objected the existing provision that it casts a continuing cloud on legitimate transactions and prevents finality. The revised terms of bill 338 seriously aggravate these objections.

We have made very rapid progress, but regardless of that, we have here a request from serious people questioning certain features of the bill. They are backed up, to some extent at any rate, by the Tax Foundation, one of the bodies which has taken part in the negotiations. I suggest now, before going into the matter further, we give these people an opportunity to be heard. There is time.

Hon. Mr. ABBOTT: I would not want to try to cut anybody off. I am rather familiar with this section. I am very familiar with the representations of the Tax Foundation. I have discussed it with the members of the Tax Foundation myself, most of whom are well-known to me. I know exactly what their objections are. However, I admit the rest of the committee do not. We could read the brief presented by the Tax Foundation. The only thing they can say is exactly what they say in their telegram, that the terms of the section are such that they do not make for certainty when people are entering into certain transactions. People cannot know in advance, in some cases, whether or not they are going to be subject to the application of section 126.

Mr. MACDONNELL: If I may say so, this is the very difficulty of which some of us were afraid. We thought we would get to a situation where the com-

mittee would have to take someone else's view, a very good view indeed, but someone else's view as to the views of some of these people concerned.

Now, this is of sufficient importance to warrant giving these people a chance to be heard. They are serious people and I would have thought they would be afforded this opportunity. After all, this is an important matter. I would have thought the committee ought to have the best chance of reaching its own conclusions. After all, the minister has been good enough—

Hon. Mr. ABBOTT: I have no objection to that. This is new law. If the Tax Foundation feels that, by removing the word "main" it makes the clause less rigorous, I am quite satisfied to revert to the law as it has stood since 1941 or 1942. However, perhaps that is not enough.

Mr. MACDONNELL: I am rather at a loss. I am not as familiar with it as the minister is.

Hon. Mr. ABBOTT: Mr. Macdonnell, I was parliamentary assistant to Mr. Ilsley when the section was revised in its present form. It was revised because of some particularly glaring cases of tax evasion. Mr. Ilsley felt that we could not, when people were paying the taxes they were during the war, let people get away with tax evasion by perfectly legal means. There was not a way you could get those evaders except by this section.

I am quite aware of the embarrassment a general section of that kind imposes. Both Mr. Ilsley and myself came to the conclusion you had to have some section of this kind in the Act. Now, I used to do a good deal of tax work in my private practice. I know the difficulty of a section such as this. I know how difficult it makes it for lawyers who are trying to advise honest clients with certainty.

Mr. MACDONNELL: I think we are fortunate you are as familiar with it as you are. However, I am saying it is desirable to have these people satisfied. I am also suggesting that, conceivably, due to their presence, some members of the committee might change their minds.

Mr. ISNOR: Is Mr. Macdonnell referring to this bill, 338 or the lower portion of the communication from the Board of Trade of the City of Toronto which deals with bill No. 298?

Mr. MACDONNELL: No, I am referring entirely to bill 338. Have you seen the letter from the Toronto Board of Trade? I am referring to section 126.

Mr. ISNOR: They refer to two bills in their communication.

Mr. MACDONNELL: Yes, but the second one is all through.

Hon. Mr. ABBOTT: Perhaps the committee would be interested in my reading from the brief of the Tax Foundation.

Mr. MACDONNELL: If the minister is prepared to ask these people to come, should they not be asked at once?

Hon. Mr. ABBOTT: My only objection to it is this; if we allow the Tax Foundation to come here and give evidence on one of the tax evasion sections—I was going to say it does not affect the general taxpayer very much—could we stop with that organization? It seems to me the door is opened wide to representations from anyone who feels interested in making a presentation on the general clauses in the income tax law. What precedent are we establishing?

The CHAIRMAN: Do you not think we ought to take a half hour now and see if we cannot reach an agreement on the matter?

Hon. Mr. ABBOTT: Mr. Douglas was here the other day.

Mr. JAENICKE: How often has this section been invoked since this case of which you spoke?

Hon. Mr. ABBOTT: About four times.

Mr. TIMMINS: I should like to cite an instance, if I may, to see whether it does not fit into this picture. A man and his son are working together as

builders. During the course of their work they build an apartment block which is worth about \$100,000. In the course of time, the father retires from active business. He has been out of the business for, say, ten years. In the meantime, a real estate boom comes along. Let us say that last year the building was worth \$200,000. They want to sell it. They go to the tax office in the city of Toronto and they tell their story in an informal way. They would like to sell and they would like to know what the department says. The department says it is all right. It is believed the increase should be charged as capital and not as income.

It is referred in an informal way to Ottawa. The deputy minister says, "Once a builder always a builder. You are in the building business and you have made your profit. It has gone up from \$100,000 to \$200,000. If you sell now, you are going to have to pay tax on that \$100,000."

The old gentleman has to make a decision. Is he going to tell his son to sell the building because he believes there is no finality between Toronto and Ottawa about this thing? He will not report it. Well, eventually he will get caught. Is he going to wait for the rest of his life, when he thinks another set of circumstances will arise? He decides to sell, and gets caught.

Hon. Mr. ABBOTT: He could appeal that decision; that is a question of law. Section 126 would not apply. The purpose of the sale is not to avoid taxation.

Mr. TIMMINS: He takes a chance. \$100,000 is a lot of money to a small man. He takes a chance. He could get caught under this section, could he not?

Hon. Mr. ABBOTT: No, he would not be affected by this section at all. It is purely a question of whether the \$100,000 is capital appreciation or income within the rules applying to income under the Act. This section is simply an attempt to strike at the cases where people enter into transactions primarily for the purpose of avoiding taxation.

There are various devices which are maintained. A series of companies may be set up in one country or another; that sort of thing. There are many ways of doing it. These are things which one cannot spell out in the Act. Before section 126 was enacted they were legal, so far as income tax purposes were concerned.

The case you have cited is purely a question of whether or not that is income. The Income Tax Department might be right in saying he was a builder and his principal business was that of a builder. Therefore, any profits which he derived from building and selling real estate were taxable profits.

Mr. TIMMINS: I shall not labour the point, but I have not stated the whole case. The fact of the matter is that the new deputy minister came along and said it would not be taxable.

Hon. Mr. ABBOTT: I think the new deputy minister was right, on the facts as you have given them to me.

Mr. FLEMING: If we are going to get back to a discussion of the section, I think we are going to pass over the point raised by Mr. Macdonnell before we have reached a decision on it. We should reach a decision on whether we should hear representations from the Tax Foundation and the Toronto Board of Trade. I do not deny, if representations are to be received orally from the Tax Foundation or the Board of Trade, others may wish to be heard. You cannot discriminate between them. On the other hand, I think there are several factors to which due weight should be given.

First, the people to whom we are referring have made a definite request they have an opportunity to be heard. They are making that request.

Hon. Mr. ABBOTT: They have not made it to the chairman?

Mr. MACDONNELL: In a letter addressed to the minister.

The CHAIRMAN: My point is this, Mr. Fleming, and it may save time: the minister was about to read the written representations made by the Tax Foundation in regard to this problem. My suggestion is we hear it and then the committee might reach agreement faster without calling evidence. If not, we could then discuss the question as to whether we should call witnesses.

Mr. FLEMING: This request for a hearing does not come from the Tax Foundation. They may have sent such a request.

Hon. Mr. ABBOTT: I do not think they requested a hearing. I may say I spoke with Mr. Douglas after the first hearing. He seemed quite satisfied with the way in which the committee's work was proceeding, and with the tentative decision we would not be hearing witnesses. The Tax Foundation has done important work and has put in very carefully prepared material, perhaps more so than any other body.

Mr. FLEMING: The paragraph to which I am referring is in the letter from the Toronto Board of Trade. It reads as follows:

The board feels that the representations of the business community on the features mentioned above should be incorporated into bill No. 338 to a substantially greater extent than is the case. It therefore, requests that it be given an opportunity to present its views on these matters when the bill is in the committee stage. This will enable the members of the House committee concerned to hear these recommendations and the reasons for them direct from representatives of business interests.

Now, the references made in the preceding paragraph concern section 126 as well as other sections of the bill. This is a highly important matter. We all appreciate the importance of it and it would be a great mistake, in my humble opinion, if we proceeded to close the door in the face of people who feel they have something of importance they would like to put before the committee. The thing is important enough to warrant their being heard in an oral presentation of their views.

While we would all like to finish this task as quickly as possible, nevertheless I think there is a bigger issue at stake here. I think we ought to hear them.

Hon. Mr. ABBOTT: There is a point, of course, which I am not sure the members of the committee have not overlooked, that this is a consolidation of the statute and we have until next year. It is not effective until the first of January, 1949. It was purposely made that way for the very reason there might be further representations from interested parties and they would have an opportunity of making suggestions with regard to further amendments.

Mr. FLEMING: But they will make those representations to the minister; there will not be an opportunity of presenting them to the committee.

Hon. Mr. ABBOTT: They will make them to the department, that is quite true. I again say that, while it is sometimes very helpful to have extended hearings before the Banking and Commerce Committee on matters of this kind, this bill has been before the public for a year. We have had extensive written representations on it. I am reluctant, at this late date, to commence hearings on it. I have been hopeful we could get a law enacted this time and then, if there are still defects in it, let us get them straightened out before next year.

This section about which we are talking, is not, in my judgment, a section which needs to cause the members of this committee or the general public too great concern. I know it gives lawyers and accountants concern because they find it hard to give clear cut opinions to their clients. I know that is the case because I have had the same experience in my private practice. The general public have not much interest in section 126 and do not need to have.

Mr. FLEMING: I just emphasized that the extract from the letter from the Toronto Board of Trade is not confined to section 126. Reference is made to section 126 and many more things. They say,

It had been hoped that with the passing of abnormal war-time conditions the government would find it possible to dispense with a much greater measure of administrative rigidity and arbitrary control.

Having said that about section 126, they go on to speak more widely and say,

Also it is regretted that those charged with the duty of preparing bill No. 338 have so largely disregarded the many uniformly supported recommendations put forward by this board and other professional and business organizations with a view to bringing income for tax purposes more into conformity with actual income under modern business practice. This group of recommendations represents a great deal of research and study and constitutes a valuable contribution to the correlation of income tax to actual business income which is necessary if business is to carry its tax burden and continue to function vigorously.

Hon. Mr. ABBOTT: We have had a very carefully prepared and very excellent brief from the Toronto Board of Trade dated the 25th of March, 1948, addressed to myself. It contains a great many recommendations, many of which relate to policy matters such as the definition of income and that sort of thing. These have been carefully considered by myself and my officials. Decisions on matters of that kind are decisions which the government must take and for which it must take the responsibility. It is perfectly open to any member who has studied this brief to reiterate these proposals either here, in the committee, or in the House.

Frankly, I do not see how we will ever reach finality in the consolidation and re-arrangement of this bill if we commence hearing oral representations from the institutions who have filed these very excellent briefs. It is unlikely that, on these policy matters, they could change our views.

Mr. MACDONNELL: It is quite true that if you do this you may be opening the door but, at the actual moment, there does not seem to be many people wanting to come.

Hon. Mr. ABBOTT: If you do start it, I am afraid there might be. We have representatives from quite a number of organizations here, co-operatives and others who would, no doubt, like to appear before the committee if we were to have oral hearings.

Mr. MACDONNELL: The minister will see we are generous. We are trying to prevent him from putting any grievance in our hands which we might use.

Hon. Mr. ABBOTT: I hope I am making myself clear. I do not want to create the impression we are trying to rush this bill through. My purpose in bringing it in last year was to have it available for long study by the public. I said in the House the major job was a drafting job to see that the existing tax law was put in as understandable and clear form as possible. I think the discussion we have had here in the committee has been very helpful. There have been one or two amendments that are fairly satisfactory, but in connection with this section 126, I think I should say at once that I believe I know all the representations which the Tax Foundation could make on it and all the representations the Toronto Board of Trade could make on it. I still feel that section 126 which is the old 32(a) must stay in the Act for the present.

I am quite willing to meet their second view that we should revert to the wording "the main purpose" and not have it as stringent as it is now. It would read,

"Where the Treasury Board has decided that one of the main purposes for a transaction or transactions—"

I think, perhaps, that is desirable. I do not want to make this unreasonably tough.

Mr. HAZEN: As I read this section, if a person or group of persons got together and did something which was absolutely legal and within the law, the Treasury Board could step in and say, "You cannot do this; we will not let you do it."

Hon. Mr. ABBOTT: Because your main purpose was simply to avoid taxation.

Mr. HAZEN: Am I right or wrong?

Hon. Mr. ABBOTT: That is about right.

Mr. HAZEN: You are within the law and you cannot do that; surely that is pure autocracy.

Hon. Mr. ABBOTT: That is striking at the very thing about which you were complaining last night. You were complaining that so many accountants were finding ways of minimizing the taxation.

Mr. HAZEN: I say there should be a provision inserted in the Act to prevent these things. The Income Tax Act was first passed about 1917, thirty years ago. The officers of this department have had all that time to deal with this problem and have had to face these difficulties. During all this time they have had to try to plug up, you might say, these small holes. In that length of time, surely the department ought to be able to draft an Act containing provisions which would pretty well block up these holes without giving any more autocratic powers of this kind.

A person has done nothing outside the law and yet the Treasury Board can say, "You cannot do this."

Hon. Mr. ABBOTT: We have not been able to foresee the devices and means which would be used to accomplish these ends and so draft a law to prevent them. If I thought we could do it, I would be delighted. Experience has shown, over the years, that the resourcefulness of the tax evader is unlimited. We have had some very competent accountants and very competent tax lawyers on the staff of both the National Revenue Department and the Department of Justice. This section has only been used the four times as I have mentioned. At least three of the cases were pretty bad cases.

Mr. HAZEN: You say it should not cause any concern to most of the people. I think it should cause concern to everybody that any board should be given such great powers as these. Any board can say to people, "You have acted lawfully. You have not broken any law, but you cannot do this."

Hon. Mr. ABBOTT: You were a member of the House when this law was enacted. It was debated rather fully. I know that does not make it any better, though.

Mr. TIMMINS: It was the Chief Justice of England who said the taxpayer was justified in avoiding tax in any way that was legally possible. Further, anyone who has practised company law knows that the lawyer is not so much concerned with the legal mechanics of incorporating a company or dealing with its consolidation, whatever it might be, as he is in dealing with the question of taxes. He would have to rely almost entirely upon the auditor to advise him how he may minimize taxation to the nth degree. The law says that is not illegal. The Chief Justice has given his opinion in years gone by that a taxpayer was justified in avoiding taxes in any way he could.

This is putting it the other way around. This is putting the department in the position of saying, "You have done all these things; so far as we can see they are legal. Fundamentally, however, you have avoided the tax and we are going to stick you."

Mr. JAENICKE: Mr. Chairman, I am more or less neutral so far as this matter is concerned. It seems to me action can only be taken with regard to a transaction where the main purpose of the transaction was tax evasion. This is subject to appeal to the Exchequer Court and that is what the court would decide. If there were evidence before the court to show the Treasury Board's finding was warranted, it would be established there was an attempt at tax evasion. I do not see why this section should not stand.

Hon. Mr. ABBOTT: The only reason for mentioning the Treasury Board is this; it was felt, in a special type of section such as this, it should not be left to the assessor to say the main purpose was to avoid taxation, and that a committee of the Cabinet should take that responsibility. You are perfectly right when you say if the Treasury Board does assert the main purpose was to avoid taxation, the taxpayer could appeal that decision to the Exchequer Court.

Mr. JAENICKE: It would be up to the man, in my opinion, to prove it.

Hon. Mr. ABBOTT: It has been in force for five years. I do not think it has caused any concern to legitimate business. I think it has been a real weapon against tax evasion.

Mr. ISNOR: I am not a lawyer and I have listened to four lawyers speaking about this matter. I should like to present the side of the accountant or business principal. An accountant is engaged by a business firm in the same way a lawyer is engaged. The lawyer is to protect the client while the accountant is employed to protect and advise his employer. He places a case before the Treasury Board. Even though it may be a transaction carried out in a legal manner, it may be subject to criticism. There may be a finding by the Treasury Board. Now, who constitutes the Treasury Board?

Hon. Mr. ABBOTT: It consists of a committee of cabinet ministers. I am the chairman and there are four or five ministers appointed by the Governor in Council.

Mr. ISNOR: I doubt very much, Mr. Minister, with all due respect to the ability of your respective ministers, whether you are as qualified to decide on that case as are the expert officials of the Department of National Revenue.

Hon. Mr. ABBOTT: We would not hear of it unless those officials reported to us that they thought the main purpose was for tax evasion.

Mr. ISNOR: I rose to the defence of accountants because they are carrying out a legitimate business.

Hon. Mr. ABBOTT: The committee will appreciate that the Treasury Board would only hear about a case of this kind on a reference from the tax department. They would say, "We have a case here in which we believe there is a transaction the main purpose of which is to avoid taxation. We think the Treasury Board should consider it." The material would be prepared and presented to us. It was in that way the three or four cases we have had were handled.

Mr. FLEMING: Are the transactions referred to here all within the law, an avoidance and reduction which is legal?

Hon. Mr. ABBOTT: There was nothing immoral about them, Mr. Fleming, but there was no specific provision in the Income Tax Act which would enable us to set them aside and claim the tax. They were, practically, devices for the purpose of avoiding tax and avoiding it in very substantial amounts.

In two of the cases I recall, it was by a series of interlocking companies in Nassau, Panama and other places, but all owned by the one beneficial owner who was a Canadian taxpayer. It ran into very big money.

Mr. FLEMING: There is enough ingenuity, surely, in the draftsmen of the department to draft legislation to meet these cases. This is a residual kind of provision which says, in effect, even though what you do may be perfectly legal, nevertheless, we are reserving the right to say it is not legal.

Hon. Mr. ABBOTT: The trouble with this is that it is difficult to find these people. By the time you unscramble the whole thing and when you do you find it is contrary to the spirit of the Tax Act. It is all very well to say you should be able to foresee these things and to plug up the holes to prevent them, but I say it is not.

Mr. FLEMING: I do not say the draftsmen of a tax bill of this kind will be able to foresee every ingenious device which will be used, but you do know the type of thing that was used previously and you can draft legislation to meet those particular cases.

Hon. Mr. ABBOTT: We have; the Act is full of them.

Mr. FLEMING: Then, why do you need to continue to have a clause such as this which is a residual one.

Hon. Mr. ABBOTT: This is a basket clause to try to meet cases which it is impossible to foresee. One may argue you should meet cases as they arise. As men are able to devise ingenious schemes for evading taxes and you catch up with them, you should amend your law. However, they are taken care of in this basket provision. If the main purpose of what you are doing is to avoid a tax, the Treasury Board can catch up with you. Perhaps it is too stringent, but I do not think it is.

Mr. FLEMING: I, personally, find the principle of it repulsive. Parliament exists for the purpose of enacting laws which are going to be obeyed and are going to prevent evasion of its laws. Here is a provision which says no matter what you may do; it may be perfectly legal and not prohibited anywhere but, notwithstanding that, we are going to reserve the right to make a decision that your otherwise legal act shall be treated as illegal.

Hon. Mr. ABBOTT: I sympathize with that point of view. I have had somewhat the same feeling. However, in these days, when we are collecting taxes at the source from every wage earner, and they have to pay these over. I think we have to be pretty careful to see that the wealthy taxpayers who have the benefit of high-priced advice cannot embark on carefully worked out schemes to avoid taxation.

Now, perhaps we should try to be more specific. We do try in every other case. This is a residual provision which has been in the Act now for five years. I do not think it has really prevented any legitimate operation from being entered into; I do not know of any.

Mr. TIMMINS: On the other hand, you say it is not illegal or, if it is not illegal, it is not illegitimate. You say it avoids the spirit of the Act, breaches the spirit of the Act.

Mr. FLEMING: I recall reading a decision in the Court of Appeal in England and perhaps the minister has seen the case. It was a decision during the war on a transaction which was conceived for the purpose of defeating the tax liability and which was brought under review. The judges in the Court of Appeal said, "This is legal and even though the purpose of it was to defeat liability it is up to the Crown and parliament to legislate in plain terms if they want to tax somebody or to say so in plain terms. There is nothing immoral about anybody saying I am not going to submit to taxation unless it is imposed upon him." This section seems to be based on a different philosophy.

Hon. Mr. ABBOTT: Mr. Gavsie has pointed out to me just on the point of view of drafting a section in connection with these different matters, it is relatively easy to take care of these things by law but the law would be in such general terms you would have to be too severe on innocent people.

As you can see, it is an easy matter for a transaction to go through three or four hands and be hard to trace, but such a transaction may be deemed to be a scheme to avoid taxation. I remember the hours and hours Mr. Ilsley and I spent discussing this section with the officials. It is true it was put into effect in war-time when taxes were high, but they are still rather high. I would not be prepared to agree to taking this section out of the Act now.

Mr. HAZEN: Would you agree to putting the word "illegal" at the commencement of line 11?

Hon. Mr. ABBOTT: I am afraid that would defeat the whole section. You see, the avoidance of tax is only illegal if the law prohibits the transaction for taxation purposes such as gifts between husband and wife. It is a drastic provision.

Mr. HAZEN: You have mentioned the appeal to the Exchequer Court. The Exchequer Court, apparently, has no powers at all.

Hon. Mr. ABBOTT: Oh, yes, the Exchequer Court could find—

Mr. HAZEN: If it finds that the transaction was not for the avoidance or reduction of taxes—

Hon. Mr. ABBOTT: I am suggesting an amendment so that it will read, "One of the main purposes." The Exchequer Court may find as a fact that the transaction may, incidentally, result in a reduction of taxation, but that does not mean it is invalid.

The section will be amended properly (section 126) by inserting in line 9 on page 81 of the bill the word "main" between the words "the" and "purposes" and in line 34 by striking out the words "none of the" and substituting, "one of the main" and in line 35 by inserting the word "not" between the word "was" and the word "the."

Mr. FLEMING: Could you not do it more simply by putting the word "main" in line 34?

Hon. Mr. ABBOTT: Perhaps, for the purpose of the record we could have the appropriate technical amendment drafted at the recess and inserted in the committee records.

The CHAIRMAN: You have heard the minister's amendment. Shall it carry? Carried.

Shall the section as amended carry?

Carried.

Mr. FLEMING: On division.

The CHAIRMAN: On division.

Mr. HAZEN: I move that the section be deleted from the Act.

The CHAIRMAN: But the section is carried.

Mr. FLEMING: On division.

Mr. HAZEN: I want to go on record as moving that section 126 be deleted from the bill.

Mr. FLEMING: I have supported that motion by voting against the motion for adoption of the section.

Hon. Mr. ABBOTT: The chairman raises the technical point that your motion negated the main motion, and the main motion is carried. You are on record, anyway.

The CHAIRMAN: I feel your motion is out of order. If you wish to appeal from my ruling on that, you are at liberty to do so.

Mr. HAZEN: I just want to go on record in the matter.

The CHAIRMAN: Section 68.

Hon. Mr. ABBOTT: Could we take that section up this evening? I think at least one other member, Mr. Fulton, asked that he be here when that section came up.

The CHAIRMAN: We will reconvene at 8.30.

The committee adjourned to meet again at 8.30 p.m.

On resuming at 8.30 p.m.

The CHAIRMAN: Clause 68.

Hon. Mr. ABBOTT: The committee will recall—

Mr. FULTON: Before we start on that there is a communication which has been received from the board of trade of the city of Toronto requesting to send representatives.

The CHAIRMAN: Mr. Fleming discussed that at some length earlier this afternoon.

Mr. FLEMING: Please do not say at some length.

Hon. Mr. ABBOTT: I assisted in the discussion. After a somewhat lengthy discussion the decision was that we had had an extensive brief from the Toronto board of trade in March in which these representations were put forward. It was felt it would be undesirable to embark upon a general policy of receiving verbal representations, and particularly in connection with this section which relates to evasion, schemes for avoiding taxation. I think we had three-quarters of an hour discussion on it this afternoon.

Mr. FULTON: The decision was no representations?

Hon. Mr. ABBOTT: No verbal representation would be received, yes.

Mr. RINFRET: There was an amendment passed.

Hon. Mr. ABBOTT: I should add the section was amended as a result of the discussion. The section was amended.

Mr. FULTON: I am sorry, but I cannot hear.

Hon. Mr. ABBOTT: The section was amended to insert substantially the words which had been in the previous section 32 (a), "main purpose" and not "a purpose".

Mr. FULTON: Was it felt that the purpose that the board of trade had in mind in asking to make representations was achieved this afternoon?

Hon. Mr. ABBOTT: As to that that would be a matter of opinion. I could not say.

Mr. FULTON: Before the meeting was called to order Mr. Fraser mentioned some other correspondence we had received.

Mr. RINFRET: You received that in the mail at 2 o'clock this afternoon.

Mr. FRASER: If you went through your mail at 2 o'clock. One was on section 57 and the other was on this section we are on now, section 68.

Mr. FULTON: Somebody wanting to be heard?

Mr. FRASER: They would like to have been heard, yes.

Mr. FULTON: Who is it from? I feel very strongly that anyone who wishes to make representations as to substantial changes to be made in the Act should have the opportunity of being heard before we make up our minds on the Act.

The CHAIRMAN: Section 57, Mr. Fulton, is the section which deals with income earned by charitable trusts.

Mr. FULTON: That is a substantial point.

Mr. RINFRET: We discussed it at length.

Mr. FULTON: After we had this or before?

Mr. RINFRET: I had them before it was passed.

Mr. FRASER: Everyone did not pick up their mail at 2 o'clock.

Mr. FULTON: That is the point. Things are being done that we simply cannot keep abreast of. I do not think it would be proper—

Mr. RINFRET: Most of the telegrams deal with section 68 which we are on now.

Mr. FRASER: They do not want to be caught on charitable donations. It bears out what Mr. Harkness said.

Mr. RINFRET: It represents exactly what he said.

Mr. FRASER: It bears him out.

The CHAIRMAN: I think Mr. Fulton should have the opportunity of making any representations he wishes to make on section 57. He was not able to be here this afternoon.

Mr. FULTON: Not only was I not here this afternoon but I have not been able to pick up my mail so I do not know what representations were made. What I am saying is I do not think it would be proper for this committee by being in a hurry to deny giving representation to those who wish to be heard. If we took things at a pace which the importance of the bill demands we would not pass these sections before they had an opportunity to make representations.

The CHAIRMAN: I think even you would agree in this type of task written representations are much preferable to oral representations, and we have the written representations.

Mr. FULTON: There, of course, I do not agree with you. I do not think written representations before a committee of this type are in any way as desirable as oral representations to back up the written representations.

Hon. Mr. ABBOTT: If I may interject, I tried to point out at the beginning this was not a policy making committee. A good many of these representations relate to fundamental questions of policy which in the final analysis have to be decided by the government of the day and submitted to parliament. The main job in this revision of the Act is rearrangement, simplification, and that sort of thing, but this is not a policy making committee.

Mr. FULTON: I recall, Mr. Chairman, in connection with the minister's remarks that in the House on two occasions an amendment was moved with respect to the interest penalty provision. On both occasions those amendments were ruled out of order, but two days ago as a result of a very short speech made by a member of this committee that position was reversed and policy was changed and the minister accepted the amendment.

Hon. Mr. ABBOTT: The amendment was from 8 per cent to 7 per cent, not a fundamental amendment.

Mr. FULTON: It was exactly the same amendment in form as was moved in the House except the percentage was reduced by only 1 per cent instead of 2 as we had recommended. It was a change made as a result of representation in the committee.

Hon. Mr. ABBOTT: By a member of the committee.

Mr. FULTON: It was a change which previously had been ruled out of order as being a policy change not acceptable. That to my mind seems to reinforce the argument that those who are recommending, whether it be policy

or administrative changes, should have the opportunity to appear before this committee and make their representations because apparently those representations have a chance of being accepted and acted on, as was evidenced the other day.

Hon. Mr. ABBOTT: Those representations were made by a member of the committee, not by an outsider.

Mr. IRVINE: Why not move a motion and settle it?

Mr. FULTON: First of all I am asking for information because I was not able to be present this afternoon as to the representations which have been received since the time I was last at a meeting of the committee, last night. As I say, I got one this morning from the board of trade of the city of Toronto. I understand there are another one or two which have been received. Perhaps the chairman can tell us just what representations have been received and then we can decide how to proceed.

The CHAIRMAN: Mr. Fulton, you have a copy of the representation that has been made in regard to section 57, and in brief it is this—

Mr. RINFRET: Which was read last night.

The CHAIRMAN: Which was read last night. In brief it is this, that in the opinion of Mr. Stikeman, who wrote the letter, income earned by a charitable trust should not be taxable.

Mr. FULTON: And there were no subsequent representations received except that of the board of trade of the city of Toronto?

The CHAIRMAN: In regard to this question of charitable trusts to my knowledge copies have gone out just as quickly as the clerk can get them out of every representation that has been received.

Mr. HACKETT: There were representations made with regard to section 126.

The CHAIRMAN: Oh yes.

Mr. IRVINE: If the clause is passed already then it seems to me it is out of order to discuss it.

Mr. FULTON: I recall last night—

The CHAIRMAN: He is out of order, but an undertaking was given by me that if any member was unavoidably absent at the session this afternoon that he would have an opportunity of speaking to any section of his choice that was contentious. I have ruled Mr. Fulton has the floor and has the right to make any representations he wishes to in regard to section 57, subsection (e).

Mr. FULTON: As I understand it the position is the representation now received was received yesterday?

The CHAIRMAN: Read to the committee last night. I read the letter.

Mr. FULTON: Then on section 57 I have no further comment to make. On section 126 a representation has been received since last night. My recollection is that Mr. Macdonnell, as well as I, suggested that section 126 be allowed to stand.

The CHAIRMAN: And it did stand.

Mr. RINFRET: Until he was here.

Hon. Mr. ABBOTT: Mr. Macdonnell and Mr. Fleming were here this afternoon. We had forgotten you had an interest in the section, too.

Mr. FULTON: Was the representation from the board of trade of the city of Toronto brought out?

Hon. Mr. ABBOTT: Mr. Macdonnell will answer that. It was.

The CHAIRMAN: And the clerk tells me—I asked him to call personally on the members who were absent—that he called personally for Mr. Fulton at his office, in the chamber, at the committee on Veterans Affairs.

Mr. FULTON: He left out the committee on Human Rights and Fundamental Freedoms. It seems to take so long to get things answered.

The CHAIRMAN: The wire which was read to the committee this afternoon was a wire complaining about the lack of finality which exists as a result of section 126. I believe that is a fair summary of the wire, is it not?

Mr. FLEMING: That was the wire from the Canadian Tax Foundation.

Mr. FULTON: It seems to take so long to get things answered. What I am asking is was representation made from the board of trade of the city of Toronto with respect to section 126?

Mr. RINFRET: Yes.

Mr. FULTON: Was it heard before the committee? Was the question of their personal appearance considered, and if so, what was the result?

The CHAIRMAN: The answer is "yes" on all counts.

Mr. RINFRET: Except the last one.

Mr. FULTON: If that answer could have been given five minutes ago I would have been satisfied.

The CHAIRMAN: I am very happy you are satisfied, anyway.

Mr. FULTON: And no other representations have been received?

Mr. HACKETT: May I ask with regard to section 126—

Mr. FULTON: Have any other representations been received?

The CHAIRMAN: I have received one this evening, but I had none this afternoon. I have one this evening.

Mr. FULTON: May I ask what it is?

The CHAIRMAN: Yes. It is a representation dated today signed by the chairman of the Taxation Committee and the vice chairman of the Taxation Committee of the Canadian Bar Association.

Mr. FULTON: What is their request?

The CHAIRMAN: I had better sit down and let you read it.

Mr. FLEMING: We are all interested in it. Is it very lengthy?

Mr. FULTON: Do they request to be heard?

The CHAIRMAN: No.

Mr. FULTON: They are out of court, are they?

Mr. FLEMING: May I suggest that probably the shortest way is to read it if it is only a couple of pages.

The CHAIRMAN:

The Taxation Committee of the Canadian Bar Association—

Mr. HACKETT: It is addressed to Hughes Cleaver, Chairman of the Banking and Commerce Committee.

The CHAIRMAN: It is addressed to the chairman of the committee.

The Taxation Committee of the Canadian Bar Association and a great many members of the association itself have been greatly disturbed upon reading section 126 as now proposed to parliament in Bill 338. The Taxation Committee of the Canadian Bar Association wishes to go on record as protesting in the strongest possible terms against the inclusion in Bill 338 of this section in its present form. This protest arises for a number of reasons, all of which we feel the Minister of Finance will appreciate not only as a member of our profession, but

as one who, while in practice, had occasion to rely upon the long founded principle of law that the courts alone can be the final arbiters of the meaning of an Act of Parliament.

In the first place, we feel that this section being far wider in its possible effect upon business transactions than section 32(A) should not be retroactive. To make this section affect transactions, whether or not entered into before the coming into force of this Act is to render questionable anything which might have been perfectly proper and legal under the old law and give to the administration the power to re-open and question every transaction legal or illegal entered into since 1917. To give such power to an administrative body, even though that body be Treasury Board itself, is, we feel, usurping the powers of parliament and rendering the courts of very little importance in the whole scheme of taxation in this country. It is true that this power will probably not be abused while the present government remains in office. It is, however, difficult for any government to give commitments relating to the use of arbitrary power which would bind another government.

In the second place, we feel that the new board of Tax Appeals and the Exchequer Court, together with the specific legislation of the new bill other than section 126 provide means for determining the proper tax under any situation. Fraud is amply dealt with under the provisions therefor. The question of whether or not a legitimate transaction gives rise to taxable income is one for the determination of the courts under the law and not for the arbitrary determination of an administrative body. If it is not, there can be no certainty in business and no possibility of any professional man giving definite advice to a client on a tax matter.

In closing, we feel that we should bring to your attention the earlier statements of the Minister of Finance that Bill 338 and its predecessor were intended to clarify the old law, to render more certain the imposition of taxation and to eliminate where possible administrative discretion. In our opinion the presence of this section renders the law more difficult of exact comprehension. It renders much less certain every taxpayer's knowledge and expectation of the incidence of taxation and, lastly, it provides a shocking extension of discretionary power upon his business and upon otherwise legitimate and legal transactions which is far wider and far more dangerous than the cumulative effect of all the discretionary powers which have been eliminated.

We feel that the presence of this section in Bill 338 is incompatible with the rule of law, inconsistent with the public statements of the Minister of Finance as to the purpose of the new bill and a denial of the doctrine that only parliament can impose taxation.

Yours faithfully

That is signed by the chairman and vice-chairman of the taxation committee of the Canadian Bar Association.

Hon. Mr. ABBOTT: To make that statement complete I wonder—

Mr. HACKETT: Would you mind if we put in the names, John A. MacAulay, chairman, and H. Heward Stikeman, vice-chairman.

Hon. Mr. ABBOTT: Perhaps to make it complete I should read the submission of the taxation committee of the Canadian Bar Association made in February of this year in connection with Bill 454 which is, of course, the corresponding bill. It reads as follows:

It is accordingly recommended that sections 107 and 108 as presently drafted should be eliminated.

Those are equivalent to the present section 126.

If, however, they are to be retained there does not now appear to be any reason why the powers under section 108 should be conferred on the Treasury Board. It is suggested that in any case where such power is to be invoked, the minister should make the assessment, which would be subject to appeal to the Tax Board in the first instance. Upon any such appeal, the onus of proving that the transaction was for the purpose of evading tax should be on the minister.

As I explained this afternoon, it seemed to me that in indicating the Treasury Board that was much better than leaving it in the hands of just the minister because the Treasury Board is made up of five or six ministers.

Mr. FULTON: Is the suggestion that it should be deleted?

Hon. Mr. ABBOTT: I explained this afternoon that this section was admittedly a very difficult one for the legal profession and the accounting profession to advise their clients on. It is a general section designed to prevent tax avoidance schemes which it is impossible to foresee. It was put in first in the Income War Tax Act of 1943, I think when Mr. Ilsley was Minister of Finance and I was his parliamentary assistant; and I have a very definite recollection of the long hours we spent studying this section, and the desirability and necessity of having it in the act. I am just repeating what I said this afternoon. I have been trying to give you the complete background history of this section.

Mr. IRVINE: Does this difficulty arise among lawyers with respect to advising their clients how not to avoid it or how to avoid it?

Hon. Mr. ABBOTT: Well, that is an interesting question, Mr. Irvine. The difficulty, of course, is this. There are a great many plans of rearrangement or reorganization which are perfectly legitimate and perfectly permissible. The taxpayer goes to his adviser whether he is a lawyer or an accountant and he says in doing this am I doing what is proper and am I doing what is within the law so far as tax liability is concerned. Now, a great many arrangements are perfectly legitimate arrangements but they are designed to have the effect of reducing the tax liability of the person who is making it, and yet they are perfectly legitimate. There are others which are admittedly for the main purpose, and for little other purpose, than avoiding the payment of taxes. And the cases in which this section has been used have been cases in which there have been very substantial sums of money involved. I have a clear recollection of some very complicated arrangement—one company in Bermuda and another in Nassau and one somewhere else, all owned by a beneficiary who was a resident taxpayer in Canada.

Mr. HACKETT: I would like to say just a word on another aspect of the situation, and I can preface what I have to say by agreeing with the minister that there will undoubtedly be some people who may seek to escape, and wrongly escape, from the effect of the law. But there is nothing new in that. The reason we have courts is to cope with that situation; and the criticism which I wish to direct to the attention of the committee at the moment is this, that once a direction has been given by Treasury Board there is no appeal from that direction to the Board that is set up under the act; that is, there is no appeal to the Tax Appeal Board with regard to the direction; and you find in section 83, subsection 2, the following: "where an appeal is from an assessment or re-assessment made pursuant to a direction given under section 126, the Board has no jurisdiction to vacate or vary the assessment in so far as it is made in accordance with the direction"; and that makes it appear that the only matter at issue in the appeal is whether one of the purposes of the transaction or transactions was the avoidance of or reduction of taxes; and it goes on to say, "the Board shall forthwith dismiss the appeal." Now, some people contend, and their opinion is not to be lightly held, that there is no appeal to the Exchequer Court in a question where a direction is involved. It is contended

by others that there is an appeal. I am conceding for my purposes now that there is an appeal, but I urge that it is an inadequate appeal because it is only before the Tax Appeal Board that the facts can be brought out. No facts can be brought out in the appeal, if appeal there be, must go to the Exchequer Court on an *ex-parte* finding of the Treasury Board.

Hon. Mr. ABBOTT: May I interrupt you there, Mr. Hackett? Why do you say that no facts can be brought out before the Exchequer Court?

Mr. HACKETT: I say that because you are going to have apparently two findings of fact which are tantamount to finality with regard to the facts. The hearing of witnesses is not permitted. You are not giving to persons against whom a direction has been made in sense of being heard. The facts are going to be set forth in the direction. There is no hearing before the Income Tax Appeal Board, and it seems to me that as far as the Exchequer Court is concerned it is going to act as a court of appeal. It may very well assume that an appeal is almost exclusively one of law.

Hon. Mr. ABBOTT: Perhaps we had better ask Mr. Jackett to answer that.

Mr. JACKETT: With great respect to that view, I cannot see there is any doubt that the Exchequer Court have complete jurisdiction to hear and appeal in exactly the same way that they hear assessment appeals. And if you will look at division J, section 91, subsection 2, page 62, it provides that upon the filing of material referred to in subsection (1)—that is, the registrar of the Appeal Board transmits the material to the Exchequer Court—the matter shall be deemed to be an action in the court and, unless the court orders the parties to file pleadings, ready for hearing. Then, section 3, says: “any fact or statutory provision not set out in the notice of appeal or reply may be pleaded or referred to in such manner and upon such terms as the court may direct.”

Mr. HACKETT: Well you see there you have a limited appeal. It is not an appeal so plain. It is one that is hedged around with all types of conditions and permissions. It is not one in which the appellant is entitled to set forth his case and have his witnesses heard.

Mr. JACKETT: I think it is exactly the same as the present provision, that appeals in the Exchequer Court give recognition to the fact that witnesses are to be heard as a matter of course.

Mr. HACKETT: I think you will agree that the language is far more restricted here than in the Exchequer Court Act where the appellants may call their witnesses and have them heard as of right. This is a quasi appellant tribunal, and the case it seems to me is very apt to be heard on the submissions that have been made.

Mr. JACKETT: Mr. Hackett, if you will look at the Income War Tax Act under which appeals are now taken, the witnesses are heard as a matter of course and not as by virtue of any special dispensation. You will find that the provisions are just the same.

Mr. HACKETT: Are they just the same?

Mr. JACKETT: I would refer you again to subsection 2, of section 91: There it says, “upon the filing of the material referred to in subsection (1) the matter shall be deemed to be an action in the court and, unless the court orders the parties to file pleadings, ready for hearing.” If you will look at section—

Mr. HACKETT: Then it goes on to say, “any fact or statutory provision not set out in the notice of appeal or reply may be pleaded or referred to in such manner and upon such terms as the court may direct.”

Mr. JACKETT: And that is the procedure in the Exchequer Court at all times. When the notice of appeal from the assessment gets before the Exchequer Court the almost invariable practice is for the parties to appear before the Exchequer Court judge and ask for direction and the court directs what is the

best way to hear that particular case; and if pleadings are asked for pleadings are directed, and then the matter is set down for trial and the parties call whatever evidence they see fit.

Mr. HACKETT: I am naturally very much interested in your remarks and in your point of view, and I shall consider them very carefully between now and the third reading of the bill. But I am fearful lest the denial of the rights of the Board to inquire into the rightness of the direction will follow through into the Exchequer Court, and the direction there will be considered as something that is not open in the absence of very extraordinary circumstances; for instance, the normal finding of a jury.

Hon. Mr. ABBOTT: Mr. Jackett has just told me, Mr. Hackett, that there is no intention that the section should have any such effect. If there is any doubt about it we will be very glad to make any amendment which might have the effect of preventing the sort of thing which you have just outlined. It should be possible when you go to the Exchequer Court—

Mr. HACKETT: To get all the facts before them.

Hon. Mr. ABBOTT: That is correct. There has never been any intention to deny that right. I can remember very well when the section was instituted that that was not the thought for a moment. It was given very thorough study by Mr. Ilsley and also by myself, and the idea was that the Exchequer Court should have the right of review in every way. If there is anything by way of amendment which can be found to make the section more clear we will be glad to consider it.

Mr. HACKETT: Thank you very much.

Mr. HAZEN: The Treasury Board finds, as it stands now, that one of the main purposes of the transaction or transactions was the avoidance or reduction of taxes—

Hon. Mr. ABBOTT: That is correct.

Mr. HAZEN: Then if it is later found that it is a perfectly legal transaction, they would certainly have an appeal to the Exchequer Court. Now, say they appeal to the Exchequer Court; what is the effect of that? What has the Exchequer Court to decide? It has to decide whether or not the finding of the Treasury Board was proper and whether these people did a perfectly legal act for the purpose of avoiding or reducing taxes. Will the court not have to support the finding of the Treasury Board?

Hon. Mr. ABBOTT: The Exchequer Court could find the Treasury Board was wrong in determining the main purpose of the taxation was to avoid or reduce the taxes. They could find as a question of fact that the reduction or avoidance of taxation was only incidental in a transaction the main purpose of which was something entirely different, in the same way the Treasury Board could find that.

Mr. FULTON: Let us give you an example which we raised last night and which you said was perfectly legal and legitimate. A small business incorporates and, instead of issuing shares for the capital which the subscribers give to the company, it issues a very small amount of share capital and the balance in debentures; that is done for the purpose of avoiding taxes. It is being resorted to in increasing measure because the incidence of double taxation is being increasingly felt. The purpose of incorporating in that manner is to avoid double taxation. The Treasury Board might say it was to avoid taxation.

You, yourself, said it was a perfectly legal method to adopt. What happens if the Treasury Board says that is done for the purpose of avoiding taxation?

Hon. Mr. ABBOTT: It is not a transaction entered into for the purpose of avoiding taxation. It is a transaction for the purpose of incorporating the business, and one of the main purposes of it is not the avoidance of taxation.

Mr. FULTON: It is a transaction entered into between two parties. Instead of receiving share capital, one party receives debentures.

Hon. Mr. ABBOTT: Perhaps the legal advisers to the Department of National Revenue could answer your question better than I can, but I think that is not a case of an investment to avoid taxation.

Mr. HACKETT: Before you take that up, I am going to ask Mr. Abbott if I am overstating his point of view if I say that, as he looks at the section the Exchequer Court is going to sit as the court of the first instance. All the facts would come before it, including the finding of the Treasury Board.

Hon. Mr. ABBOTT: I think that is correct. It is the court of first instance. The Treasury Board, here, is really performing the function which, under normal circumstances, is performed by the department.

Mr. HACKETT: Yes, the administrative function.

Hon. Mr. ABBOTT: It was felt that, since we were drafting this section and it was an unusual section, it should be taken from the ordinary channel and the exercise of this discretion should be by a somewhat higher body, that is a body of ministers of which the Minister of Finance is chairman. It could be the Minister of National Revenue. I think, in the three or four cases which have taken place, the taxpayer has appeared before the Treasury Board with counsel. Argument has been made, facts have been adduced and so on. There has been no appeal from any of the findings of the Treasury Board in those four cases.

Mr. LESAGE: There is no doubt if action is taken it will be in the first instance and all the evidence will be put in. It says:

On an appeal from an assessment made pursuant to a direction under this section or in an action for tax under part 2 imposed pursuant to this section, the Exchequer Court may—

Surely, this is the first instance so far as our courts of justice are concerned and all the evidence would have to be put in.

Hon. Mr. ABBOTT: I think Mr. Hackett stated my understanding of it very accurately. It is the first instance.

Mr. HACKETT: We have reached the end of the administration feature.

Hon. Mr. ABBOTT: There would be an appeal from the Exchequer Court to the Supreme Court of Canada. There would be an appeal on the record to that court. There would be no evidence offered there.

Mr. LESAGE: But an appeal from the Treasury Board finding would be a first instance?

Hon. Mr. ABBOTT: That is right.

Mr. MACDONNELL: The more I think about this section the more I feel that, as has already been stated, I would not fear it in the hands of the present administration but it could be used aggressively. I could think of administrations which shall be nameless here which set out to be vindictive. I would say that in the hands of a vindictive administration you could find hundreds of corporations where certain transactions, certainly perfectly proper and normal transactions had, as their main purpose, a reduction of taxes.

Mr. HACKETT: It is the only point upon which they appeal.

Mr. MACDONNELL: No, the Exchequer Court would have no chance whatever except to say, "Yes, the main purpose was a reduction of taxes." I feel much more strongly, the more I look at it, that this section, put in the hands of some administrations will be used three or four times but, put in the hands of a vindictive administration such as has existed right in this country, it could be used vindictively. Unless I am reading this all wrong and corporation

lawyers here can suggest a better instance than I can, I believe it is a correct statement to say you could find hundreds of cases where there were transactions, perfectly proper ones, the main purpose of which was a reduction of taxes.

Mr. HACKETT: I do not see why anybody goes before the appeal board unless it be to achieve a reduction in taxes.

Mr. FULTON: I do not think the main question is whether it would be used beneficently by this administration and maliciously by some other administration, the question is whether it should be in our tax law. It is a question of whether it is an equitable provision to allow any department of any government whatever, any administration whatever. Should they be able to say to a taxpayer who has done something perfectly legal that, although it is legal and although it is proper—

Hon. Mr. ABBOTT: Not necessarily proper, that is the point.

Mr. FULTON: I am basing it upon what you said last night. It was a perfectly legal and proper method of setting up these companies and, therefore, a perfectly legal and proper transaction. Although it is a perfectly legal method, you still pay taxes. When we are reviewing the administrative procedure under the Income Tax Act, I do not think it is a proper section to remain in the Act. I, therefore, move that this section be deleted from the Act.

Hon. Mr. ABBOTT: It has already been passed.

Mr. FULTON: I understood we were to be given an opportunity of—

Hon. Mr. ABBOTT: Of discussing it, yes.

Mr. IRVINE: Have we not a lot more clauses to pass?

Hon. Mr. ABBOTT: Just one.

Mr. IRVINE: Let us pass it, then we can all play with this after we pass it.

Hon. Mr. ABBOTT: As I said this afternoon, this is not a new clause. It has been in the Act since 1943. It is a clause which is an important policy clause. I cannot accept an amendment to it. It can be moved if you wish, and you can register your opinion as you have done here, that you feel this clause should not be in the Act. I think I should state quite plainly that, after the most careful consideration of the briefs which have been received, the government cannot accept an amendment to strike out this clause. It is aimed at preventing tax evasion; that is my position. I made that perfectly clear this afternoon. I cannot change it. If it is in order to vote again, by all means vote again. If anyone wants to discuss it more fully now, I am quite in agreement with that. However, I want to make my position perfectly clear.

Mr. FULTON: If the minister rules, as I take it he is certainly in a very powerful position to rule, that that is a policy clause there is not much use moving an amendment to it. I just want to answer, then, he says it has been in the Act since 1943.

Hon. Mr. ABBOTT: Before that, but in its present form since 1943.

Mr. FULTON: I think he, himself, will admit that this is the first opportunity parliament has had of considering the whole set-up of the Income Tax Act.

Hon. Mr. ABBOTT: That is true, but this clause was debated at length in the House of Commons when it was proposed and when it was amended. All the points which you have put forward were put forward, perhaps not with equal cogency, but they were put forward when it was before the House. It is not a new question.

Mr. FULTON: I am sure they were. The point I am making is, here we have an opportunity, in fact we are being called upon to accept the duty of considering in detail and at length the set-up of our income tax legislation. My resolution would be that this committee recommend that section 126 be deleted from the Act.

Mr. HACKETT: I would move an amendment to that, that the words "avoidance or reduction" be stricken and be replaced by the words "improper evasion". After all, Mr. Minister, I think it is quite possible we are all aiming at the same thing. No one here wishes to enable a person to escape from his lawful duty, but I think the words, "avoidance or reduction" are wider than the intent—I will say of the minister, not of the government—because no one will appeal from an assessment unless it be to obtain a reduction. No one makes a return except with a view to paying what he owes and no more. I think the word "reduction" goes beyond the intent of the draftsmen.

Mr. FLEMING: May I ask what the difference is between "avoidance" and "evasion"? I thought they were synonymous?

Mr. HACKETT: I do not set myself up as a doctor of etymology—I cannot even spell that—. However, I do think, in my mind, there is a difference between reduction and evasion.

Mr. FLEMING: Yes, there is. You are proposing to strike out the word "avoidance". I cannot see any difference between "avoidance" and "evasion". I can see a difference between "avoidance" and "reduction".

Mr. HACKETT: I am suggesting we strike out the words "avoidance or reduction" and replace them by the words "improper evasion".

Hon. Mr. ABBOTT: I will accept this amendment—you have given me a thought here.

Mr. HACKETT: I generally give you a pain.

Hon. Mr. ABBOTT: I will accept an amendment which inserts the word "improper" before "avoidance or reduction". I will tell you why I leave the word "avoidance" in there. A transaction might be perfectly legal but it may have the effect of an improper reduction or improper avoidance. I will accept that amendment gladly.

Mr. JAENICKE: Do you admit there is a proper avoidance, then, by the use of the words "improper avoidance"?

Mr. FLEMING: A proper avoidance would be the case which the minister cited.

Hon. Mr. ABBOTT: I think there is a point there. In any case, it is always a matter of opinion.

Mr. HAZEN: If you accept the word "illegal" as I suggested this afternoon, you would be all right.

Hon. Mr. ABBOTT: No, no, my reason for accepting the word "improper" is that I think that must be necessarily read into the section.

Mr. FLEMING: It at least suggests a moral element about the intent of those who conceive schemes to avoid a reduced tax liability. It is a distinct advance, anyway.

Hon. Mr. ABBOTT: I am willing, as I say, to amend it by putting in the word "improper" but I cannot change the words "avoidance or reduction", putting in "evasion", because we think that nullifies the whole section. We will try it for a year and if it is better, all right; if it is not better, it will be amended again.

Mr. FULTON: Let me ask the minister this question because I would be prepared I think to withdraw my amendment and let Mr. Hackett's amendment stand.

Hon. Mr. ABBOTT: It is my amendment. Mr. Hackett suggested "improper evasion" and I cannot accept that.

Mr. FULTON: I am not asking the minister to give a formal commitment which would be binding but does he visualize that by the use of the word "improper" we are importing something into the section which some of us are against, as being the same as the word "illegal"?

Hon. Mr. ABBOTT: The transaction may be quite legal but improper from the point of view of the tax collectors. A good many of these operations are legal. The reason for this is that we cannot foresee the particular type of arrangement entered into which might reduce or avoid taxation. I am not too fond of snap amendments but as I have said this section has been passed as it stands this afternoon, and of course it will come before the House again in the committee of the whole. Unless the Department of Justice tells me the insertion of the word "improper" will nullify what we are trying to accomplish by this section which I have explained quite fully to the committee this afternoon and this evening, then I would be prepared to move an amendment when we are in committee of the whole in the House. That is as far as I am prepared to go this evening.

Mr. FULTON: Would you not move it now?

Hon. Mr. ABBOTT: No.

Mr. IRVINE: I am going to raise a point of order. If this thing is being dealt with I think the section should be re-opened.

Hon. Mr. ABBOTT: The section is carried as it is but of course everyone has an opportunity when we get into the House to discuss it.

Mr. HACKETT: We are all trying to get on and, despite some disparity in view and opinion, tempers have not been short so far and I think it would be well to consider 126 as if it had not been passed. I think it will make for expedition. We all understand your point of view, and let us proceed with the motion and dispose of the section in that way.

The CHAIRMAN: Mr. Hackett do you not think the minister's suggestion is a fair one? We are seeking for phraseology which will define something that is reprehensible and we cannot find a word the minister is content to accept as a snap decision. He has given the committee an assurance that he will consult with his advisers and he will, if they advise him, move an appropriate amendment to this section on third reading of the bill.

Hon. Mr. ABBOTT: When we are in committee of the whole.

The CHAIRMAN: Yes, and surely that is as far as you can expect any minister to go. It is an extremely difficult thing to put into words.

Mr. HACKETT: In view of the minister's undertaking, and I am only speaking for myself because there are half a dozen gentlemen whose views are just as pronounced as my own, I will accept his undertaking and he will understand because he has to consider that we are not totally abandoning our position.

Hon. Mr. ABBOTT: It would be open to any other member of the House to move another amendment.

Mr. HAZEN: Why do we not have representatives from the legal department appear before us and explain whether this is suitable and then we could vote on it.

Hon. Mr. ABBOTT: I do not mind if we vote on it but I will vote against any amendment and vote for the clause as it stands. However, let us have a vote if it is wanted and get on with it. We have had one vote and we can have another.

Mr. FULTON: I have a point of order. I moved that this committee recommend that the clause in its present form be deleted from the bill.

Mr. HACKETT: Before you go any further would it not be well to have an understanding that we can consider the clause?

Mr. FULTON: I am just going to raise that question. The minister has indicated he may be prepared to introduce an amendment in the House which would have the effect of altering the form of the clause and if that is so there

would be no purpose in my resolution. What I want to get at is this. If this resolution is allowed to go forward and is not ruled out of order, because of previous disposition, I think we should have the benefit of this committee's recommendation to the House. If the committee accepts my resolution that the clause in its present form is not acceptable it might carry some weight in the House if the minister is not prepared to accept the motion.

The CHAIRMAN: I now have three or four motions before me. First I want to fully implement the undertaking which I gave you, Mr. Fulton, last night, and I am now going to call clause 126 so there is no question but what your motions are fully before the committee. Now the next point is that you have moved that the clause be deleted and I must rule that motion out of order because you should register your vote against the clause.

Mr. FULTON: With respect, I did not mean that motion.

The CHAIRMAN: If you check the record you will find that you moved that the clause be deleted and I rule that motion out of order. The way a member deletes a clause is by voting against it. Then coming to the second motion, the recommendation, I do not think that recommendations are in order until the bill is finally complete and then the committee adds to its report, when reporting the bill, any recommendations which the committee wishes to make to the House. After the bill is cleared if you want to include a recommendation in the report, and if you can secure majority support for the recommendation, it will of course be included in the committee's report. I believe that is where we stand.

Mr. HACKETT: I had an amendment.

The CHAIRMAN: Yes. Those two motions being disposed of Mr. Hackett moves that the words "improper—"

Mr. HACKETT: No, I move that the words "avoidance or reduction" be deleted and in their place—

The CHAIRMAN: You would substitute "improper evasion"?

Mr. HACKETT: Yes.

The CHAIRMAN: Now I understand in view of the minister's assurance to the committee, that you are withdrawing that motion?

Mr. HACKETT: I will do that.

The CHAIRMAN: That is where we stand now. Shall section 126 carry? Carried.

Mr. FULTON: On division.

The CHAIRMAN: Now we come to section 68, subsection (1), sub-paragraph (3).

Hon. Mr. ABBOTT: We passed the whole section but sub-sections (4) (e) and (6) were allowed to stand. There was a paragraph added to section (8) and that was passed.

The CHAIRMAN: All the members of the committee have in their hands the proposed amendment, but first I should read to the committee some wires which were received this afternoon too late to get them before the committee.

Mr. FLEMING: Excuse me a moment, I was in another committee when this matter was discussed before. Is this the minister's amendment?

Hon. Mr. ABBOTT: Yes, that is right.

The CHAIRMAN: May I read the wires received this afternoon too late for circulation to the committee. The first wire is from William E. Hall, secretary-treasurer, Alberta Wholesale Implement Association, addressed to the chairman of the committee. It reads:

All members of this association strongly protest against any amendment being made to Income Tax Act which will permit co-operatives

to increase revolving funds or reserves without income tax being paid on such amounts stop Such concession if granted would be most unfair and would greatly discriminate against all other private business stop We therefore again strongly urge that the recommendations of the royal commission on co-operative tax exemption be not exceeded.

Mr. ISNOR: Who is that from?

The CHAIRMAN: William E. Hall, secretary-treasurer, Alberta Wholesale Implement Association.

Mr. HACKETT: Where does he telegraph from?

The CHAIRMAN: Calgary. I have another wire from Toronto, signed by A. C. Thompson, Canadian Manufacturers' Association. It is fairly lengthy but I think I should read it because there was not time to circulate it.

Re Income Tax Bill 338 now before your committee the association has strong objection to any change being made in sections 66 to 68 inclusive whereby payment of a patronage dividend could be deemed made without such payment actually being made so that a co-operative company can build up reserves tax free stop Association has always objected to the discrimination which prior to 1947 existed between ordinary joint stock companies as compared to co-operative companies in respect to these tax free reserves stop Regarding the tax evasion sections 125 and 126 we object to provisions such as these being continued in the income tax law because in view of other sections in bill covering all types of evasions these sections are unnecessary and in so far as they might go farther are vague and indefinite stop With these sections included no taxpayer can arrange his affairs with any clear determination of his tax liability stop In other words certainty and finality in tax affairs have been discarded stop Prior to wartime changes in the law the taxpayer had a right to arrange his affairs so as to pay the minimum tax and this right should be restored to him stop Section 126 is particularly objectionable because in addition to the foregoing objections an additional objection is that since the phrase quote one of the purposes unquote is used it prevents a taxpayer from even considering in a transaction minimizing his tax liability and section 108 of Bill 454 of 1947 was at least preferable stop Transitional provisions particularly section 129 subsection 6 are objectionable in that the changes throughout this Act are quite sweeping and therefore should not apply retrospectively unless unavoidable.

Mr. FLEMING: It is to the same effect as the wire we had before us this afternoon from the Tax Foundation.

Hon. Mr. ABBOTT: It is not in quite the same terms.

The CHAIRMAN: They complain of lack of finality.

Mr. FLEMING: That was one of the grounds of objection stated this afternoon. There may be some others like myself here now who were not present when the matter was under discussion before. Might we have a brief exposition of the effect of the proposed amendment?

Hon. Mr. ABBOTT: I will start it off and then ask Mr. Jackett or Dr. Eaton to elaborate on the explanation. Broadly speaking the amendment is to give effect to what has been the administrative practice of the Department of National Revenue with respect to patronage dividends since that type of dividend has been allowed as a deduction from income for the purpose of calculating tax. The co-operative union and others have urged that the ruling which has been given by the Department of National Revenue should be stated

in the law. Subsection (i) of the section relating to payment is identical with the law as it now stands, and the changes are the addition of (ii) and (iii). I do not know whether Mr. Gavsie or Mr. Jackett can elaborate on that but that is the position.

Mr. FLEMING: Would they refer to (ii) and (iii)?

Mr. BENIDICKSON: The minister says this is the result of certain representations. I note the bill is dated June 8. Are there representations since June 8?

Hon. Mr. ABBOTT: Both before and after.

Mr. BENIDICKSON: The government has changed their minds since they prepared the bill?

Hon. Mr. ABBOTT: That is right.

Mr. FLEMING: Could we hear about (ii) and (iii)?

Mr. HACKETT: Before Mr. Jackett starts I should like to ask if this deals with what we would call, if they were not in co-operatives, reserves which are not taxed?

Hon. Mr. ABBOTT: No, these have nothing to do with reserves. What it amounts to is this. I am not too good at explaining this but I will have a go at it and if I am wrong Dr. Eaton or Mr. Jackett can correct me. Each year these co-operative enterprises have certain profits which they are prepared to distribute or have available for distribution to their members as patronage dividends. They pay them out in cash. They sometimes keep them as a loan from their shareholders. They sometimes keep them in payment of subscriptions for stock from their members, I should say, and in some cases they are retained in virtue of a by-law passed by the shareholders which says that the corporation may retain these dividends instead of paying them over. In such case they are income in the hands of the member of the co-operative and, of course, taxable as such in his hands. I do not know whether that explanation is complete. Perhaps it needs some elaboration.

Mr. JACKETT: The purpose of (ii) particularly was to clear up a doubt that had arisen as a result of the administration's interpretation of "payment". The present provision requires patronage dividends to be paid before they can be included in computing the amount deductible under this section. One extension of the ordinary word "payment" is in paragraph (e) as it is printed in the bill, that is, they can issue certificates of indebtedness or shares in lieu of actually paying out cash pursuant to the allocation as long as in the same year or within twelve months thereafter they pay off an equal number of such certificates or shares which have been issued in a previous year. That is one statutory extension of the word "payment" in the present law. The administration's interpretation of the word "payment" was that it also included an amount that was set off against a debt owing by the co-operative to its members. That has been questioned on the ground that technically a set-off is not payment, that it also includes crediting of the amount of the dividend against a loan that the shareholder has undertaken to make to the corporation, or a loan which he is deemed by the by-laws of the corporation to have agreed to have made to it.

The administration took the view that the word "payment" in its ordinary dictionary meaning included those things. Paragraph (ii) is put in to make it clear that the word "payment" for purposes of this section does include these things, and the proposed amendment to subsection six is to make it clear that the shareholder member cannot come along and state he was not paid and therefore he is not taxable.

Mr. HACKETT: May I ask a question to make sure that I understand. If this was a corporation, if you were dealing with a corporation and it declared a

dividend which would give me \$100 that would be taxable in the first place in the hands of the corporation and then in my hands?

Mr. JACKETT: You mean the corporation would have paid tax on the amount out of which it was paid. That is right.

Mr. HACKETT: And then—

Mr. JACKETT: Then you pay tax on the dividend.

Mr. HACKETT: If I have enough income to be a taxpayer.

Mr. JACKETT: That is right.

Mr. HACKETT: In the case which we are dealing with the corporation or the co-operative—

Mr. JACKETT: Which is a corporation.

Mr. HACKETT: Does it pay tax on the amount that is available for patronage dividends?

Mr. JACKETT: What this section does, as I understand it, is to permit a co-operative to deduct in computing its income patronage dividends that are paid by it within the limits permitted by this section. There are various restrictions but the amendment of two or three years ago was to permit the co-operative to deduct in effect as a cost of doing business, patronage dividends paid by it as long as they complied with all the restrictions of this section.

Hon. Mr. ABBOTT: Any corporation may do that.

Mr. JACKETT: Any corporation, not only a co-operative.

Mr. HACKETT: Is it going too far to say this permits a co-operative to build up capital in the way of a reserve which is free from taxation?

Mr. JACKETT: Under (i) if they just issue a certificate the shareholder is taxed on it and in effect taxwise it is the same as though it was paid out and complied with the provisions of the section. Then as far as (ii) is concerned where it is the case of a loan you have the same thing. You are treating it for the purposes of this section as though the dividend was paid to the shareholder. The shareholder has to take it into his income.

The CHAIRMAN: And lend it back to the corporation?

Mr. JACKETT: And lend it back to the corporation.

Mr. FULTON: Without saying anything about the merits of the section is there not some slight contradiction in (ii) where it reads:

The application by the taxpayer of an amount to a member's liability to the taxpayer (including, without restricting the generality of the foregoing, an amount applied on account of a loan from a member to the taxpayer,

and so on. If the loan was from a member to a taxpayer there would not be any liability by the member to the taxpayer. The liability would be the other way, would it not? You see the first words before the bracket, "the application by the taxpayer of an amount to a member's liability to the taxpayer" seem to me to contemplate a loan by the taxpayer to the member. Then the member is liable to the taxpayer. Then the words inside the brackets say, "including, without restricting the generality of the foregoing, an amount applied on account of a loan from a member to the taxpayer". That would be the opposite.

Mr. JACKETT: I appreciate your point. It may be it should be revised. What we had in mind, of course, was the application of a member's obligation to make payment because he had obliged himself to make a loan.

Mr. FULTON: "Because he had obliged himself"? Those were your words, had obliged himself to make a loan?

Mr. JACKETT: Yes. I would want to think about that. It may be you have a point. It is certainly open to the interpretation you take of it.

Mr. FULTON: It does seem to me you sort of reverse the liability in your words in the brackets as compared with the words outside the brackets.

The CHAIRMAN: No.

Mr. FULTON: Should not the wording in the brackets be, "(including, without restricting the generality of the foregoing, an amount applied on account of a loan from a member to the taxpayer—

Mr. HACKETT: No, it is a loan by a member to a taxpayer. The idea we want is, it is being applied by way of a loan from the member to the taxpayer. That wording is not quite good enough, but that is the general idea.

Mr. FULTON: Well then, should not the wording of subsection 2, be changed?

The CHAIRMAN: May we have a minute on that, if you don't mind, Mr. Fulton?

Mr. FULTON: Certainly.

The CHAIRMAN: Mr. Fulton, would you strike out the words "on account of" and substitute "as a loan", and see if that does not meet your point?

Mr. FULTON: I should think so. It does occur to me that there might be that contradiction. It seems that would clear it up. That seems to be more consistent.

The CHAIRMAN: Now, gentlemen, are there any further comments on this? It is ten to ten.

Mr. BENEDICKSON: Mr. Chairman, this is a bill of 89 pages and some 131 sections. A lot of us have not received copies of the amendments. This bill received first reading on June 8, and somewhere in the interval the government has been persuaded to change it to the extent of quite a large number of amendments, which I can quite understand most members—and speaking for myself—would not understand too readily because it is a very complicated question. I would like to ask the witness whether or not I have an understanding of what the law was a week ago. As I understood it a week ago a co-operative which took in a surplus of receipts over its expenditures and disbursed that surplus to its members it was free of tax except for a tax to the extent of 3 per cent of its declared capital; and what we are deciding now is the question of what is "payment out" of that surplus over expenses. We have had an act here for some time which defines payments, and I take it that what we decided in parliament necessitated some kind of an interpretation among the staff of the Department of National Revenue; and I take it that within recent times this department has been interpreting "payment out" in a certain way which is under some question. We are now asked to define "payment out" in our statute as being the same thing as the officials of National Revenue have within recent times declared it to be. Is that correct?

Mr. JACKETT: I think that is a fair statement.

Mr. TIMMINS: This principle which has been in the bill before, is that considered by the administration as being a proper way of making a payment so that there will be no tax on the co-operative?

Mr. BENEDICKSON: I want to say, Mr. Chairman, that some of us here who are just laymen about these things have a layman's idea about what "payment out" means. Fundamentally we think it means a disbursement, we sign a cheque and we send it out to somebody, and it is free and open to him to do whatever he likes with what is paid out to him.

Mr. TIMMINS: I did not understand that you could give effect to this amendment from the administrative standpoint through the medium of a by-law passed by members of a co-operative. What they are actually considering here, I mean the administration, is an extended definition of the term "payment out."

Mr. BENIDICKSON: I would like to ask how long is the time within which the Department of National Revenue has been defining payment out to include all the things that are in the proposed draft now before us?

Mr. GAVSIE: This, as I understand it, has been the interpretation from the beginning of the section being enacted.

Mr. BENIDICKSON: And it originated when?

Hon. Mr. ABBOTT: 1946, I think.

Mr. BENIDICKSON: I would then ask, has the legal advice of the Department of Justice ever been sought as to whether or not the practices of the Department of National Revenue would be legally approved by the Department of Justice as including various things that we are now asked to say are the equivalent of payments out.

Mr. JACKETT: It is getting personal, but I have had that job on my desk for at least two weeks while I have been working on this bill, and I have not got much beyond the stage of reading the letter.

Mr. BENIDICKSON: In other words, the Department of Justice, as far as you know, has had the matter before them only within the last two weeks—the letter asking them whether or not payments out in accordance with the statute would include the various things that National Revenue has over a certain time allowed as payments out?

Mr. JACKETT: I would not say exactly two weeks.

Mr. FLEMING: In any event, you have not given your ruling?

Mr. JACKETT: No.

The CHAIRMAN: And there will be no need for a ruling.

Mr. BENIDICKSON: If it passes.

The CHAIRMAN: Yes.

Mr. BENIDICKSON: But in other words, there is some doubt as to whether or not payments out under the statute as it now stands include the ramifications that have within a certain time been permitted.

Mr. HACKETT: "Practices" you should say.

Mr. BENIDICKSON: Yes, the practices that have been permitted by National Revenue.

The CHAIRMAN: And the purpose of that being put there, Mr. Benidickson, is to make sure that the taxpayer can be taxed on that amount.

Mr. BENIDICKSON: On the contrary, Mr. Chairman; that the taxpayer can be exempted.

The CHAIRMAN: No, no. That the taxpayer can be taxed on personal income to that extent, that the member taxpayer can be assessed as personal income.

Mr. BENIDICKSON: Oh, yes, that is another issue and I think we have had some suggestions on that already in briefs that have come to our attention; this brings up the question of whether or not we should in this legislation authorize certain executives of a co-operative to use such influence and authority as they have in a co-operative to see that a certain by-law is passed whereby their shareholders would from that time forward have to pay income tax on dividends that they never actually received.

Mr. HACKETT: No, they do not.

Mr. BENIDICKSON: From the dividends which are placed to their credit on the books but which they did not receive. Under this legislation, and by reason of the carelessness of the average shareholder in most corporations of co-operatives, due to non-attendance at meetings the shareholder would find, in due time, he was recorded on the books of the co-operatives as receiving a certain

amount of dividend which would be taxable under the laws of this country, without those dividends ever having come into his hands. He would find, that by by-law those dividends went back into the hands of the directors but the shareholder would have to pay income tax. I do not think that is very democratic.

Mr. FULTON: Would it not be fairer to say it went back into the hands of the corporation.

Mr. BENIDICKSON: That is a better way of putting it.

The CHAIRMAN: Have we any complaints from those individuals.

Mr. GOUR: None from my co-operative.

Mr. ISNOR: I should like to ask the officials whether this is along the lines of the report dealing with the question of co-operatives.

Hon. Mr. ABBOTT: I will leave that matter to the officials, Mr. Isnor. I am not an expert on it.

Mr. JACKETT: I do not think the report got down to that detail. I would not be sure, but I do not think the report dealt with the detail.

Mr. FLEMING: Parliament did not give effect to the full report, anyway. The amendment of 1946 was, really, only a fraction of the extent to which the report proposed to go.

Mr. ISNOR: I think it definitely deals with the question of the payment of cash. I wish to support Mr. Benidickson with regard to it. I think he has presented a very clear picture, as I understand it. I am anxious to discover the purpose of the amendment. It would appear to me as though a special benefit is being given to a certain class of businessmen in Canada.

I am a retailer. We have an income tax form. We have a certain procedure to follow. It is not the same procedure as is being followed in this amendment. I am wondering as to why, if there is a benefit, it is being brought about and accruing to a certain class.

I think I should place on record the fact that we had, in Canada in 1941, about 137,331 retail stores paying under what we call the regular income tax system. Those stores have sales amounting to \$3,440,000,000. They employ 297,000 employees full-time and 95,000 part time. I want to make my point a little later in regard to those figures. They pay, in salaries, \$289,379,500. All of that money was paid out in the way of salaries and wages and, under our regular system, is subject to income tax.

On the other hand, we have five large co-operatives, wholesalers in Canada, who belong to the National Co-operative Incorporated in the United States, whose main business is in dairy equipment, farm machinery, automotive and mechanical production. To those five, I do not wish to refer, as some of my friends do in another group, as combines and monopolies. There are five large outstanding firms connected with American firms who are, apparently, going to receive a special term of income tax benefits.

Now, dealing with just the wholesale firms, we have 1,900 co-operative associations in Canada with a total earning amounting to \$163,467,434; that is a huge business. The members' equity amounts to \$92,455,174. There is a paid up share capital of \$19,580,322. I want to emphasize this point. There are surpluses and reserves of \$73,874,852. There is only one way to arrive at those reserves and that is to build them up from what is left over. They can call it what they like. It is all derived from business operations during a period of years.

Now I say, Mr. Chairman, there should not be any class legislation. There should not be any discrimination. There should not be any favours or favouritism shown as between classes of merchants. You can call them what you like. This is particularly so when they roll up such a large surplus such as I mentioned. I think from 1946 onwards every business firm, no matter what label it operates under, should be taxed on exactly the same principle. Unless

I have a very much better explanation as to why these benefits as extended in the amendment are extend, I must, in fairness to the 137,331 retailers—not that I represent them here but I am one of them—I must say there appears to me to be discrimination. I cannot but conscientiously vote against it.

Mr. HACKETT: I should like to say one word.

Mr. GILLIS: Before Mr. Isnor finishes, could I ask him a question? Do you pay back to your patrons a patronage dividend on their purchases? Are your patrons members of your firm?

Mr. ISNOR: I think any man who is in business today knows there are two separate types of business, one of which you represent. The fundamental principle of doing business and of paying taxes is whether you derive benefit, profit or surplus, whatever you like to call it; a difference between what you take in and what you pay out at the end of the year. That is the important principle and it does not matter what I do.

Mr. GOUR: I am, perhaps, in the same position. I am a retail merchant carrying everything you are able to buy in a country store. There are three co-operatives in my home town. Those three co-operatives are dealing in only a few lines which I handle, mostly grain, agricultural implements and fertilizers. They are also going into shoes now. However, I have so many lines and they have just a few, but at least they have some lines which I have. I am of the opinion that we have not given the co-operatives a bit too much protection in this bill. I am in favour of the protection which is given now. I am actually in competition with them, but I am chairman of one co-operative also. It is a flax fibre co-operative and I find that there is not a bit too much protection for the real co-operative. As the Act is now I do not think anyone need be afraid to let these small people have a chance to combine together and get things which they need. I do not think businessmen have anything to fear and if these people make enough money to pay income tax it is keeping this country prosperous. I am in favour of paying income tax but I do not think we are giving them too much of a chance against the big companies and the real clever fellows who have everything in their hands. They have the money behind them and should not have anything to fear from the co-operatives. If you do not think I am a real merchant you can come out and see, and I am in competition with three co-operatives right in my own town. I do not see that there is any reason against giving these people a chance to buy the goods they need and to sell their produce. Some of them sell their hogs, and their other produce, and some are buying what they need. I think this Act is all right and it is my wish and my opinion that it should be passed.

Mr. HACKETT: I want to discuss the question from a stage which is a little anterior to that raised by the gentleman who has last spoken. If I have understood these amendments they are dealing with and rest upon a fiction. You will impose a tax upon the member of an amount which he does not receive. That, it seems to me, is fundamentally wrong because it is untrue. I am not going to deal with the aspect of it which hints at, if it does not assume, that a few people dominate the policy of a co-operative. I assume that wherever men congregate that a few will always determine what is going to be done, but we are being asked to tax a number of members upon money which they do not receive and they never receive. It seems to me that is fundamentally wrong. It may not be necessary to go further but if you forget the co-operatives for a moment and deal with a corporation the shareholder is not taxed on the dividends that he does not receive; the corporation that does not distribute its dividends builds up reserves and increases its power in many ways and if it goes too far there is power in the minister and in the department to compel a distribution. It seems to me unwise to depart from the fact and go into fiction in a matter as far reaching as this legislation and it seems to me a day may come when

the small taxpayer, and I assume many members of co-operatives are people of limited means, would feel very much chagrined at paying taxes on something which has shrivelled up. They will have received a promissory note and pay income tax on it instead of on that which represents the fulfilment of the promise. For that reason it seems to me we should be very careful in departing from fact in taxation legislation.

The CHAIRMAN: Is there any other discussion?

Mr. HAZEN: I would like to ask a question for my own information. There have been a number of wires received.

The CHAIRMAN: Yes, and I will read them when I have the chance.

Mr. HAZEN: There seems to be one which refers to the building up of income tax reserves and in the wire from Mr. Thompson I noted that he says they build up reserves tax free. That is an objection that is raised apparently to this proposed amendment by these associations and federations and there are other wires along the same lines. Here is one from D. L. Morrell and he says the principle of equal taxation of all forms of business enterprise is what they believe in and he suggests that amendment be made which would give the co-operative enterprise further tax advantages over other business enterprises. What I would like to ask is does this amendment enable co-operatives to build up income tax reserves as these people complain?

Hon. Mr. ABBOTT: I would ask Dr. Eaton to give the answer?

Mr. EATON: The section which deems these payments to have been received and to be income by the individual means that they are taxed in his hands and are therefore not tax free reserves.

Mr. HAZEN: Does this amendment enable co-operatives to build up tax reserves tax free?

Hon. Mr. ABBOTT: The amendment does not do it. The amendment confirms what the administrative practice of the Department of National Revenue has been since these so-called co-operative sections were put in to the Income War Tax Act.

Mr. BENIDICKSON: How long has the department recognized this?

Hon. Mr. ABBOTT: Since it first came in in 1946.

Mr. JAENICKE: It was recommended by the royal commission?

Mr. BENIDICKSON: But it has nothing to do with the statute?

Mr. HACKETT: I think Dr. Eaton's answer, while technically exact, might have been more complete had he said that these moneys are not taxable in the hands of the taxpayer, but they are taxable in the hands of the members.

Mr. IRVINE: The member is the taxpayer in the last analysis.

Mr. HACKETT: In the legislation I think it is really a little confusing. I understand that the taxpayer means the co-operative?

Hon. Mr. ABBOTT: Yes and subsection (6) at the bottom of the amendment covers the recipient.

Mr. HAZEN: I should like to ask a further question if I am in order, and it is this. Why are co-operatives allowed to build up reserves tax free and private enterprises are not allowed to build up reserves tax free?

Mr. EATON: Following up my last answer, my answer at that time was they were not tax free.

Mr. HAZEN: Somebody told me co-operatives could build up tax-free reserves. Can they build up tax-free reserves or can they not? I should like to know that.

Mr. HACKETT: They are tax free in the hands of the taxpayer, that is, the co-operative.

The CHAIRMAN: As chairman of this committee I will not be permitted to vote unless it is a tie, and I should like to ask the permission of the committee, if I may, to express my views and say how I would vote if I were permitted to vote.

Mr. HAZEN: Can I get an answer?

The CHAIRMAN: That is what has brought up my statement now. As I understand this, and I ask Mr. Jackett and Dr. Eaton to correct me if I am wrong, all this provision does is to facilitate loans by hundreds and perhaps thousands of individuals in small amounts to the co-operative. You can imagine what the servicing cost would be if the co-operative had to actually issue cheques and issue receipts for money back. These individuals in the co-operative want to lend money to the co-operative, and I say to you, Mr. Isnor, that if any one of your shareholders, knowing that your company needs money, want to lend money to the company there is nothing that prevents you or your company from receiving loans from shareholders tax free. That is exactly the same thing, as I view it, as is happening here. All we are doing is we are facilitating and cutting down the servicing cost to these individuals who want to carry on their own business.

Mr. ISNOR: In reply to you all the individual that you have in mind, and whom you have stated would receive the dividends, has to do is to turn the cheque over, and endorse it on the back.

The CHAIRMAN: Yes, but there has got to be an entry in and out. May I finish—

Mr. ISNOR: That transaction is a clear-cut one. As stated in the McDougall report they are paying the dividends out and the recipient is then taxed on that the same as you and I.

The CHAIRMAN: That brings me to the other point I want to make, if I may be permitted to finish, and I will be through right away. To me it is rather an odd thing that every complaint that I have received, and I have received some four or five more wires in the same vein, is not a complaint from these shareholders of the co-operative that we are wrongly taxing them, and that kind of thing, but the complaint I have received is from their competitors in business, you see, and it is quite apparent they are trying to do something to upset the economic operation of the co-operatives. You know as a business man that every time you put a charge account on your books it costs you money and every time payment is made out by a co-operative and a loan received in if you do it by individual transaction it will cost a tremendous amount of money. There has been no complaint from any shareholder of a co-operative that we are pushing them around; the complaint comes from their competitors.

Mr. ISNOR: That sounds all right from your angle. If a certain group thinks they are being discriminated against it is only natural for them to draw it to your attention, which they are doing. I doubt very much if the members of these various co-operative associations know that this thing is taking place, and realize that by a by-law which can be passed they will not in future receive their dividends. I want to ask you a question, for instance, regarding the payments of these share values. It says here, "the issue of a certificate of indebtedness or shares of the taxpayer or of a corporation of which the taxpayer is a subsidiary wholly-owned corporation—purchasing certificates of indebtedness or shares of the taxpayer or the corporation previously issued," does that mean that these dividends which are withheld can be applied to an outstanding debt or balance on a share in this company?

The CHAIRMAN: My understanding is, yes; if the member wants it so applied. Now, you understand Mr. Isnor, that these co-operatives are democratically managed and the majority rules. Nobody has to be a member of a

co-operative unless he wants to, but surely in a democracy people can act together for their own good.

Mr. BENIDICKSON: That applies to governments too. Take in my own case, I happen to be a shareholder in a small way of the McIntyre Porcupine Mine. What chance have I effectively of protesting the action of the directors of that company. What say have I as to what the directors of that company decide to do? For example they propose to hold their gold and not sell it. All I can do is to sit back, hold my stock, and take my loss in the market; just sit tight and wait. That is all I can do. What protest have I got? I cannot appeal to the manager of the company. Of course, I get notice from them as to any annual meetings being held, but if I happen to be in some part of the country other than where the meeting is being held I would not have much chance of attending. Now, I am going to ask you that question because the proposition of the chairman was academic, in my view. The average shareholder of any organization should be considered in a law, and by those of us who make the laws. And that is what we are doing here. Now, what I would like to know is the actual date that the Department of National Revenue issued the interpretations of payments out that are equivalent to what they are now asking us to approve by way of amendment to this act.

Mr. GAVSIE: Unfortunately, I have to return to my office to be able to answer that.

Hon. Mr. ABBOTT: It was in 1946 that the laws came into force.

Mr. BENIDICKSON: That, of course, puts me in an awkward position because my information is that it was very recently. If you and Mr. Gavsie are sure of your facts that these interpretations have been there from the inception of the statute, that all these rulings have applied since 1946, I have to accept it.

Mr. GAVSIE: You must realize, of course, that the co-operatives only became taxable in the legislation of 1946 and it took a year or more, until the 1947 returns were coming in, so it is just recently that the problem has been before us so far as the Tax department is concerned, so that we are still in the throes of trying to work out all the little details. Now, this is one of the details that came up, and with it have come these related problems for consideration. This reflects the opinion of the department and the department is expressing its opinion now. As you will appreciate, we have not had years of experience with this thing yet. This represents our view of the problem in connection with a new matter, and we are now trying to have it set out in the law so there will be no doubt about it.

Mr. BENIDICKSON: As you say, this provision was only brought into effect in 1946, and now we find ourselves faced with this involved legal interpretation of payments out. It is desired that we include the various things that we see on this long page that we now have before us. It is because there is apparently some doubt about the administrative interpretation that you are now asking parliament to do certain things and put it in statute form.

Mr. FLEMING: May I just ask Mr. Gavsie, arising out of a remark just made; you say that this has just become a problem this spring?

Mr. GAVSIE: I should not have said that. It goes further back than that.

Mr. FLEMING: But it was brought to your attention through the 1947 returns?

Mr. GAVSIE: No, it was before 1947.

Mr. ISNOR: I thought we were waiting for an answer? I was going to follow up the question with regard to the Department of Justice. They have not, since 1946 or the coming into effect of the operation of this particular section, given a ruling.

Mr. JACKETT: My understanding is we have not because I certainly would not have been dabbling in this thing for the last two or three weeks if I thought we had. I cannot give you a firm assurance we have not because I do not actually issue the opinions.

Mr. ISNOR: I am not a lawyer and I hesitate to get into a legal argument. I am not going to offer any advice in a legal way this evening, but I am told there is a difference of opinion in regard to the legal interpretation of this. The opposite view has been given by a very well-known firm in Montreal.

Mr. JACKETT: All I can say is I had great difficulty in following some of the reasoning in one of the opinions I saw. I am not prepared to express a contrary opinion until I have had an opportunity of going into it.

Mr. TIMMINS: Would you say when section (ii) was first passed upon by the department?

Hon. Mr. ABBOTT: It was drafted by Mr. Jackett, himself.

Mr. TIMMINS: When was the first case finally decided and that this would be put in (ii).

Hon. Mr. ABBOTT: To make it clear, what do you mean by (ii)?

Mr. TIMMINS: That is the proposed amendment.

Hon. Mr. ABBOTT: You mean the case contemplated by (ii)?

Mr. TIMMINS: We are told that the administration has done this very thing.

Hon. Mr. ABBOTT: The administration, as I understand it, ruled that the case which is contemplated in (ii) constituted payment within the meaning of the law.

Mr. TIMMINS: Then, there must have been a case which came before them and they must have said this will pass.

Hon. Mr. ABBOTT: I am sure you are right.

Mr. TIMMINS: Was that in 1948 or was it in the month of December, 1947 or when was it?

Hon. Mr. ABBOTT: Mr. Gavsie answered it a moment ago by saying he would have to go back to the office to find out.

Mr. TIMMINS: He answered it generally in respect of the whole series of clauses, but I am asking with respect to the one, (ii)?

Mr. BELZILE: Would it be a fair inference—

Mr. GAVSIE: I would have to check that up to be able to give the exact date. It may very well be that this is one of the questions which was asked because it is the type of thing co-operatives have been doing. I am not sure it was an actual case or whether this was a problem which was bound to arise and consideration was given to it and that decision arrived at. As I say, I am sorry I have not the information here and cannot give you the exact details.

Mr. TIMMINS: Then, it was not an administrative decision but an administrative consideration.

Mr. GAVSIE: It is an administrative opinion of what the law means. If parliament sees fit to pass this section there will be no doubt about it. If parliament does not see fit to pass it then there will be a great deal of doubt. The reason the Department of Justice has it under consideration at the present time is that it has been suggested the interpretation is not correct. It is more or less recent because the whole thing has only arisen in the last year and a half. In view of the doubt cast upon our interpretation of the section we have asked the Department of Justice to give their opinion on the law as it stands today. This subsection is here and if it passes there will be no need for the opinion of the Justice Department.

Mr. TIMMINS: If there has not been a decision we are not just codifying the law, we are making new law.

Mr. BENIDICKSON: Parliament considered this when they passed it originally and we have not time now to go into the intricacies of it. Why not let the courts decide it? Let us not introduce new law in haste. This bill passed first reading on the 8th of June but somebody has seen fit to introduce something new and we are told by some of our constituents that it involves something different from what parliament previously decided. I think we would be safer in leaving the law as it was when parliament last had opportunity of discussing it thoroughly. If there is any dispute let us leave it. There are those who favour one side and those who favour the other and at a later date there will be an adequate time, when we are not under pressure as we are now, to discuss any enlargement of the law that might be involved.

Hon. Mr. ABBOTT: I should perhaps point out the union of co-operatives requested this clarification of the law as far back as last winter.

The CHAIRMAN: You have heard the amendment of the minister, you have had it explained and there has been a full discussion. Are you ready for the question?

Mr. FULTON: I want to ask one question. Can an ordinary corporation take advantage of this amendment which is now before the committee? Is it permitted by company law as it exists in the case of a dominion company or of companies incorporated under provincial companies acts to pass such a by-law as is contemplated under subsection (e) to take advantage of this amendment?

Mr. JACKETT: I have not formed any final opinion but my thought would be a by-law such as contemplated here would not have any legal effect, be it passed by a co-operative or corporation, unless it was specifically authorized by the incorporating statute. If it was so authorized it would be valid just the same as if the co-operative had special legislative permission.

Mr. HACKETT: There is no provision for it in the Dominion Companies Act or in any dominion company or provincial companies act of which you are aware?

Mr. JACKETT: I have not found it in any co-operative act although I am told it is contained in at least one.

Mr. FULTON: I take it you mean the articles or memorandum of association?

Mr. JACKETT: I think it would have to be in the statute under which the company was incorporated.

Mr. FULTON: The powers of the directors to do the things which occur in a company are outlined in its memorandum of association which is drawn pursuant to the Companies Act in the province in which the company is incorporated and therefore the powers given to a corporation and its directors are limited to the things open to it which are specified by the Companies Act. The question is could a company incorporated either in provincial or dominion statute which you have knowledge of make such a by-law as is contemplated in this amendment?

Mr. JACKETT: Offhand I would think not. I think the same thing would apply to a co-operative incorporated under the Co-operatives Act unless the Co-operatives Act had a special provision authorizing it to include that in its memorandum of association.

Mr. FULTON: Then what is the purpose of this amendment?

Mr. JACKETT: Such a provision, I understand, is in the Act of one province.

Mr. FULTON: What province is that?

Mr. JACKETT: I understand it is in the Saskatchewan Act. I have not seen it. There is nothing to stop it being put in other Acts or in the Companies' Acts.

Mr. FULTON: Is it contemplated to introduce any such amendment to the Dominion Companies' Act as would enable a company to change its articles of memorandum and take advantage of this?

Hon. Mr. ABBOTT: I have never heard it suggested.

Mr. IRVINE: It might be suggested provided the companies and their customers are one and the same people.

The CHAIRMAN: It should also be said, and I am surprised that someone has not mentioned it, that co-operatives are under many restrictions which do not apply to ordinary companies. They must pay out 80 per cent of their earnings yearly. Their members only vote once whether they hold one share or a thousand shares. They are under certain restrictive measures, and obviously their powers would be different. There is not anything mysterious about that.

Mr. JAENICKE: Is not this distinction true that any corporation if they set aside a reserve are taxed on that and a co-operative is not, but their shareholders are taxed, so in each case they are only taxed once? Is that not the situation?

Mr. JACKETT: If a co-operative sets aside a reserve it is taxable.

Hon. Mr. ABBOTT: In the law there is no definition of a co-operative as such. They are not given special tax treatment. In accordance with the provisions of the McDougall report patronage dividends are allowed to be deducted from gross income whether they are paid by a so-called co-operative or paid by a private corporation. That is the central recommendation of the McDougall report.

Mr. FULTON: My recollection of what was said when the bill was first introduced in 1946 is that it was said then, and I think the position was fair and was accepted as such, that what co-operatives were being allowed to do under the Act as then introduced would also be available to corporations if they cared to avail themselves of the same, in other words, follow the same general provisions. What I am asking in effect is are we giving an opportunity for co-operatives to do something which opportunity will not be available to corporations by virtue of their set-up?

Mr. JACKETT: As I understand it co-operatives will be in the same position as other corporations. They will both have to go to the legislatures which passed the statute under which they were incorporated and get the power to pass by-laws of this kind.

The CHAIRMAN: Are you ready for the question?

Mr. HAZEN: May I ask one question? I have here a wire that was sent to the chairman, dated June 16, from George S. Hougham, General Manager of the Canadian Retail Federation.

The CHAIRMAN: I read that to the committee.

Mr. HAZEN: In the course of the wire he says:

"Commission"—

that is the royal commission that had to do with co-operatives—

"established that co-operatives make profits and resulting legislation provided their reserves could not be increased without such additions being taxed as in the case of ordinary business."

Is that statement incorrect?

Mr. EATON: Perhaps I might follow on from where Mr. Jackett left off. If an ordinary corporation has the power to do what is contemplated in this law—

The CHAIRMAN: Takes the power.

Mr. EATON: Takes the power to do it then the reserves so-called that are built up will be built up in exactly the same way as they will by what is known as a co-operative. The point I made originally was in both cases they would

be taxed reserves in the sense tax will have been paid on that which goes into the reserve.

Mr. HAZEN: I am not clear. He says:

"Resulting legislation provided their reserves could not be increased without such additions being taxed."

Is that the law at the present time?

Mr. JACKETT: I think—

Mr. HAZEN: Or is that statement not quite correct?

Mr. JACKETT: I think there is some difficulty arising out of the double use of the word "reserve." Strictly speaking a reserve is a part of profits that are just set aside and whether it be a co-operative or any other corporation it pays tax on that part of the profits that are set aside as a reserve. What is being referred to as a reserve here is the capital that the co-operative or other corporation has acquired by declaring a patronage dividend and borrowing it back from its members. Then it is operative capital and it is not payment through a dividend set aside as reserve.

Mr. TIMMINS: We don't tax. But this corporation pays a dividend, declares a dividend and pays it out to its shareholders, and then they arbitrarily turn around and take it back by way of a loan. The corporation pays a tax and the shareholder pays a tax; but now, in so far as the co-operative is concerned, this goes through, instead of paying over a patronage dividend it gets it under a by-law, or whatever means may be used here. The co-operative does not pay the tax but the member of the co-operative pays the tax.

Mr. FULTON: Mr. Chairman, have we heard all the telegrams?

The CHAIRMAN: I have one here—

Mr. HACKETT: Just before you go into that, I think it is quite clear that the change that is contemplated here is a very radical one; and, with great respect to the minister, it seems to me that it goes beyond what he pointed out was to be the effect of this bill. I am reading now just a sentence from his speech on the 29th of April, 1947, when he said:

We have been busy during the past year upon the rewriting of our basic income tax law in an effort to improve its arrangement, to make it clearer and simpler, and to remove ambiguities and anomalies. Hon. members will, I think, be particularly pleased with the extent to which it will be less dependent upon the exercise of ministerial discretions. Senior officials of the Departments of Justice, National Revenue and Finance have spent many months on a very detailed revision. I have taken a considerable personal interest in their work in this field.

Now that envisaged, as I understand, rearrangement of the article without any radical change in the taxing provisions. Now, I take up the suggestion of Mr. Benidickson here; it would seem to me that we are confronted with an extremely radical and far reaching change in the substandard law; and, rather than expose the government or parliament to enacting legislation which is radical without full investigation, it would seem to me well that we should let this matter stand until we can go at it with great assurance that it will be beneficial and that it is fair; and fairness is something that you must not overlook in dealing with taxation; and that it is what people whom it is supposed to help will want.

Mr. FLEMING: You mean let the section stand?

Mr. HACKETT: Let the section stand and not enact it at this session. Let the amendment stand. We will be back again very soon and we will have an opportunity of looking at it again.

Mr. FLEMING: Don't say that.

Mr. HACKETT: We will have an opportunity of discussing this matter at some length, and the departmental officials will have had then an opportunity which is due to overburden they had not yet had to consider the amendment in all of its indications and ramifications.

Hon. Mr. ABBOTT: My only comment, Mr. Benidickson, is on the remark of Mr. Hackett referring to my statement that there were to be no radical changes of policy. Opinions may differ, but I do not consider it is a radical change in policy to put in statutory form what the administrative department had been ruling was the law. I do not think it is. I was willing to do that and that is the reason the amendment was brought forward. I can see views for and against a provision of this kind. I am fully aware of those but I think that is a matter which can be—

Mr. HACKETT: I think, Mr. Minister, purely on a question of fact, it has not been established that this has been a departmental practice for any time.

Hon. Mr. ABBOTT: Perhaps I should say it this way; I am willing to accept departmental practice as desirable if parliament sees fit to enact it.

Mr. HACKETT: The Department's practice, I think, is very hazy at the present time if we take the words of Mr. Jackett. He told us that the matter has been submitted to Justice. There has been no ruling upon it and there is some controversy concerning the Act. We know there is nothing in the Company's Act to mete out equal treatment to corporations and shareholders in those corporations.

Mr. BENIDICKSON: That fact has been referred to in my comment along the same lines. I think it has some validity. There is some doubt about whether or not this is a good law. The Department of Justice says that, until the last two weeks or so, they had never been asked about it. The government says they have had some representations along certain lines advanced to them as early as April. They should have been able to make a decision before now and it should have been put in this bill so that all the people who received copies of the bill would have had an opportunity of deciding whether or not they were for or against it.

I myself am in an embarrassing position. I have had no comments against the bill as it was drafted on June 8. Everything has been quiet. Now, I have received protests because of something announced only this morning. I do not think it is fair to members of parliament. If certain representations were made as early as April we should have had this in the bill so all the persons interested would have had an opportunity of coming before this committee.

Mr. FULTON: Since they were not given an opportunity of coming before us I think we should hear whether any more representations have been received by the chairman.

The CHAIRMAN: I have received wires since coming to this committee room from the Canadian Federation of Farm Equipment Dealers, signed by Danby Hannah, President; the Saskatchewan Wholesale Implement Association; the Saskatchewan Wholesale Implement Association, Northern Section, signed by Mr. R. A. Matheson; from the Alberta Wholesale Implement Association North Alberta Section, and they all follow the same trend. I will put them on the record.

Mr. FULTON: What do they say?

The CHAIRMAN: I will read one and you will then have the gist of them all.

The Canadian Federation of Farm Equipment Dealers protest any amendment of income tax bill which will permit co-operatives to increase revolving funds or reserves without paying income taxes on amounts withheld.

Are you ready for the question?

Mr. TIMMINS: I move that the amendment stand over.

Hon. Mr. ABBOTT: I think I would ask for the question. We can vote against the amendment in which case the section as it is in the bill stands.

Mr. ISNOR: If the amendment is defeated, the bill stands as it is.

Hon. Mr. ABBOTT: As it was previously.

The CHAIRMAN: You all have the amendment of the minister before you. All those in favour of the amendment please signify. I declare the amendment carried.

Shall the section as amended carry?

Carried.

Mr. FLEMING: On division.

The CHAIRMAN: Shall the preamble carry? Shall the title carry?

Carried.

Mr. FULTON: I want to ask one question. Last night section 51 stood pending a solution of an apparent contradiction between that section and section 40?

Hon. Mr. ABBOTT: That was all fixed up this afternoon.

The CHAIRMAN: Shall I report the bill as amended?

Carried.

The meeting adjourned.

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